

INDIANA GAS COMPANY, INC.

d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC.

A CENTERPOINT ENERGY COMPANY

(VECTREN NORTH)

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INDIANA UTILITY
REGULATORY COMMISSION

IURC CAUSE NO. 45468

DIRECT TESTIMONY

OF

BERTHA R. VILLATORO

DIRECTOR, COMPENSATION

ON

COMPENSATION AND BENEFITS

SPONSORING PETITIONER'S EXHIBIT NO. 9,

ATTACHMENTS BRV-1 THROUGH BRV-8

Glossary of Acronyms

BRP	Benefit Restoration Plan
Cash Compensation	Base Pay and Short-term Incentive Together
CenterPoint	CenterPoint Energy, Inc.
Cook	Frederic W. Cook & Co., Inc.
CPA	Competitive Pay Adjustment
HR	Human Resources
I.B.E.W.	Local Union 1393 of the International Brotherhood of Electrical Workers, AFL-CIO
IURC or Commission	Indiana Utility Regulatory Commission
Legacy CenterPoint Employees	Employees of CenterPoint Energy Companies Prior to the Vectren Corporation Merger
Legacy Vectren Employees	Employees of Vectren Corporation Companies
LTI	Long-term Incentive
MRP	Market Reference Point
Petitioner or Vectren North or The Company	Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of Indiana, Inc.
RSU	Restricted Stock Unit
SERP	Vectren Corporation Unfunded Supplemental Retirement Plan For a Select Group of Management Employees
Service Company	CenterPoint Energy Service Company, LLC
SRP	Savings Restoration Plan
STI	Short-term Incentive
STI Plan	Short-term Incentive Plan
Total Pay	Base Pay, Short-term Incentive, and Long-term Incentive Together
U.S.W.	United Steel, Paper and Forestry, Manufacturing, Energy, Allied Industrial and Service Workers International Union AFL-CIO, on behalf of Local 12213 and Local 7441
Vectren	Vectren Corporation
Vectren Ohio	Vectren Energy Delivery of Ohio, Inc.
Vectren South	Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc.

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DIRECT TESTIMONY OF BERTHA R. VILLATORO

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Bertha R. Villatoro. My business address is 1111 Louisiana Street,
5 Houston, Texas, 77002.

6

7 **Q. By whom are you employed?**

8 A. I am employed by CenterPoint Energy Service Company, LLC ("Service Company"),
9 a wholly-owned subsidiary of CenterPoint Energy, Inc. ("CenterPoint"). The Service
10 Company provides centralized support services to CenterPoint's operating units,
11 which includes Vectren Corporation ("Vectren"), a wholly-owned subsidiary of
12 CenterPoint.

13

14 **Q. On whose behalf are you testifying in this proceeding?**

15 A. I am testifying on behalf of Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery
16 of Indiana, Inc. ("Petitioner", "Vectren North" or "the Company"), which is a subsidiary
17 of Vectren.

18

19 **Q. What is your role with respect to Petitioner Vectren North?**

20 A. I am Director, Compensation for the Service Company, which, as explained above,
21 provides centralized support services to Vectren, which is the parent company for
22 Petitioner as well as two other utility subsidiaries of Vectren – Southern Indiana Gas
23 and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South")
24 and Vectren Energy Delivery of Ohio, Inc. ("Vectren Ohio").

1 **Q. Please describe your educational background.**

2 A. In 2005, I graduated from Texas A&M University with a Bachelor of Science degree in
3 Business Administration. I received an MBA from Rice University in 2013. I currently
4 hold the following certifications: Certified Compensation Professional, Professional in
5 Human Resources and Society for Human Resource Management Certified
6 Professional.

7

8 **Q. Please describe your professional experience.**

9 A. My professional experience has been in human resource ("HR") management,
10 specializing in employee compensation program design and administration. I also
11 have experience in other areas, including employee relations, equal employment and
12 affirmative action compliance and employee recognition.

13

14 **Q. What are your present duties and responsibilities as Director, Compensation?**

15 A. In my current role, I provide leadership in the design and administration of
16 compensation programs for all CenterPoint employees, including those who serve
17 customers of Vectren North. I also work closely with the Director of Benefits to provide
18 an effective total compensation and benefits program for CenterPoint.

19

20 **Q. Have you ever testified before any state regulatory commission?**

21 A. Yes. I have testified before the Minnesota Public Utilities Commission on behalf of
22 CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota in Docket
23 Number G-008/GR-19-524. I have also testified before the Railroad Commission of
24 Texas on behalf of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy
25 Entex and CenterPoint Energy Texas Gas in GUD No. 10920. I have also testified

1 before the Indiana Utility Regulatory Commission ("IURC" or "Commission") in Cause
2 No. 45447.

3

4 **Q. What is the purpose of your testimony in this proceeding?**

5 A. I will support the compensation and benefits provided to Company employees and
6 executives and provide information on the basis for CenterPoint's compensation and
7 benefits decisions. As I will detail below, CenterPoint's compensation and benefits are
8 targeted to the median of the market and are necessary to recruit and engage a
9 qualified workforce. Maintenance of a qualified workforce furthers the Company's goal
10 of providing safe, reliable and cost-effective service to Vectren North customers.

11

12 **Q. Are you sponsoring any attachments in this proceeding?**

13 A. Yes. I am sponsoring the following attachments in this proceeding:

- 14 • Petitioner's Exhibit No. 9, **Attachment BRV-1**, CenterPoint Retirement
15 Projections;
- 16 • Petitioner's Exhibit No. 9, **Attachment BRV-2**, CONFIDENTIAL Market
17 Compensation Survey Data Compared to CenterPoint;
- 18 • Petitioner's Exhibit No. 9, **Attachment BRV-3**, CenterPoint 2019 Short-term
19 Incentive Plan;
- 20 • Petitioner's Exhibit No. 9, **Attachment BRV-4**, 2019 STI Plan Goal Results -
21 Union;
- 22 • Petitioner's Exhibit No. 9, **Attachment BRV-5**, 2019 STI Plan Goal Results;
- 23 • Petitioner's Exhibit No. 9, **Attachment BRV-6**, FWC 2019 Top 250;
- 24 • Petitioner's Exhibit No. 9, **Attachment BRV-7**, LTI Grant Goals Cycles 2018-2020;
- 25 • Petitioner's Exhibit No. 9, **Attachment BRV-8**, CONFIDENTIAL Meridian Analysis.

1 **Q. Were these attachments prepared by you or under your supervision?**

2 **A. Yes, they were.**

3

4 **Q. Where are the total pay and benefit costs that the Company seeks to recover?**

5 **A. Total pay and benefit costs are reflected in Petitioner's Exhibit No. 18, Workpaper C-**
6 **1.1a (WPC-1.1a), sponsored by Petitioner's Witnesses Angie M. Bell and Ryan D.**
7 **Moore.**

8

9

10 **II. COMPENSATION**

11

12 **Q. What is CenterPoint's compensation philosophy?**

13 **A. CenterPoint's compensation philosophy is to maintain the competitiveness of its**
14 **compensation plans and levels as measured from a "total compensation" perspective.**
15 **That is, CenterPoint HR staff measures the value of all the components that make up**
16 **employees' total compensation and compares that value against competitor**
17 **companies to ensure that CenterPoint's compensation plans and levels are sufficient**
18 **to recruit, retain and motivate the quality workforce and leadership needed to serve**
19 **customers. The objective of this approach is to approximate the median (50th**
20 **percentile) of the market for total compensation represented by the companies**
21 **included in the market compensation surveys (also known as market compensation**
22 **studies) CenterPoint uses to assess the competitiveness of its compensation and**
23 **benefits. This philosophy is applied consistently across CenterPoint's business units,**
24 **including the Company.**

25

1 **Q. What are the components of total compensation?**

2 A. The components of total compensation are base pay, short-term incentive ("STI"),
3 long-term incentive ("LTI") and benefits.

4
5 **Q. What other terms will you be using in your testimony to describe different**
6 **aspects of total compensation?**

7 A. I will refer to base pay and STI together as "cash compensation." I will refer to base
8 pay, STI and LTI together as "total pay."

9
10 **Q. Is the Company's total pay reasonable and prudent?**

11 A. Yes. The pay levels the Company offers are reasonable and prudent when compared
12 to competitor companies because they are designed to target the median of the
13 market, and currently total pay is [REDACTED] the median of the market.
14 Regarding CenterPoint, total pay is slightly [REDACTED] market median [REDACTED]
15 [REDACTED]. Because the Company's levels of compensation are always changing due to
16 turnover, retirements, and promotions, we use the term "target" in our approach to
17 approximate market compensation at any single point in time. If the Company's
18 compensation levels fall within +/- 10% of the market median, the Company's pay is
19 considered competitive. To maintain this competitive position, CenterPoint must
20 continue to provide competitive base pay levels, annual base pay increases and
21 incentive compensation opportunities. CenterPoint continues to offer all of these
22 elements of pay and targets its total pay to the market median in order to maintain its
23 competitive position and continue to attract, retain and motivate the necessary skilled
24 workforce.

1 **Q. Are there any employment trends affecting the Company's ability to attract and**
2 **maintain a qualified workforce?**

3 A. Yes. It is especially important to provide competitive compensation and benefits
4 because turnover in our industry is increasing as workers are aging. As of June 30,
5 2020, 26% of CenterPoint employees were eligible to retire and 37% will be eligible to
6 retire within the next five years. Regarding the Company specifically, 25% of
7 employees were eligible to retire as of June 30, 2020 and 39% will be eligible to retire
8 within the next five years. See Petitioner's Exhibit No. 9, Attachment BRV-1,
9 CenterPoint Retirement Projections.

10

11 **Q. How does CenterPoint ensure that employee pay is market-based?**

12 A. CenterPoint uses a process referred to as Market Pricing to determine the components
13 of its compensation program and the external value of total compensation to target for
14 its non-union employees. Market Pricing is a process of determining the compensation
15 amounts provided by other employers for jobs performing essentially the same duties
16 and requiring similar qualifications as employee positions at CenterPoint. More
17 specifically, pay data is reported to participating companies via surveys based on a
18 process of matching jobs having similar core duties and qualifications. Depending on
19 the position being analyzed, the HR staff uses a variety of national, regional and local
20 survey data that is refreshed annually to monitor and determine market pay values.
21 Most jobs are matched to multiple surveys. Service Company HR staff members
22 analyze these multiple survey sources to determine various statistical pay values
23 represented by the survey data, including median, average, and percentile amounts.
24 The market-based values derived for base pay, STI, and LTI are then annually
25 compared by the HR staff to actual pay levels of CenterPoint employees to determine

1 whether adjustments are needed to maintain a competitive position relative to pay
2 levels of other survey participants. For any individual employee, pay will be below, at
3 or above market rates depending on many factors such as compensation levels
4 necessary to hire qualified candidates, time in the job, experience, skills, and individual
5 performance.

6

7 **Q. What are some examples of the type of surveys used to monitor market-based**
8 **pay related to employees?**

9 A. Two different types of surveys that are used to monitor market-based pay related to
10 employees are:

11 (1) Industry specific surveys covering the natural gas distribution utility
12 segment, such as:

13 •American Gas Association Compensation Survey;
14 •EAP Data Information Solutions Energy Technical Craft Clerical
15 Survey;
16 •Willis Towers Watson Energy Services Middle Management,
17 Professional and Support Compensation Survey; and
18 •Willis Towers Watson Energy Services Executive Compensation
19 Survey.

20 (2) General industry surveys, such as:

21 •Willis Towers Watson Houston Office and Clerical Salary Survey;
22 •Willis Towers Watson General Industry Middle Management,
23 Professional and Support Compensation Survey; and
24 •Willis Towers Watson General Industry Executive Compensation
25 Survey.

1 CenterPoint relies on these types of surveys to establish pay ranges that represent
2 pay levels CenterPoint and the Company's competitors provide for the positions
3 CenterPoint and the Company require, and to ensure that CenterPoint receives
4 objective data reflecting a broad representation of the market.
5

6 **Q. Is this same compensation philosophy applied to executive compensation?**

7 A. Yes. The same market forces exist with respect to recruiting and retaining executive
8 level employees. As such, CenterPoint uses the same market-based pay philosophy
9 for executives. All components of pay for executive positions are measured against
10 the same or similar positions at comparable companies. This analysis ensures that
11 our compensation is fully competitive and sufficient to recruit, retain and motivate the
12 executive talent necessary to plan and lead the operations of the Company.
13

14 **Q. What pay costs are included in the Company's rate request in this case?**

15 A. As addressed in the testimony of Petitioner's Witness Ryan Moore, the Company is
16 requesting recovery of the budgeted amounts for calendar year 2021 associated with
17 base pay, with estimated Competitive Pay Adjustment ("CPA") for calendar year 2020
18 and 2021 from the base year of calendar year 2019, test year STI expenses at 100%
19 of target, and test year LTI expenses at 100% of target.
20

21 A. Base Pay
22

23 **Q. How does the Company's average base pay compare to the base pay of**
24 **competitor companies?**

25 A. Annually, the Company compares the median base pay levels reported in the market

1 surveys, to the base pay of its non-union employees with similar job responsibilities
2 requiring comparable skills and experience. As of June 2020, this comparison
3 indicated that the overall average CenterPoint base pay was [REDACTED] the market median
4 base pay of the surveyed companies [REDACTED] Regarding the Company
5 specifically, the average base pay was [REDACTED] market median [REDACTED]
6 See Petitioner's Exhibit No. 9, Attachment BRV-2, CONFIDENTIAL Market
7 Compensation Survey Data Compared to CenterPoint.

8

9 **Q. Does CenterPoint provide annual base pay increases?**

10 A. Yes. CenterPoint reviews the need and the overall budget percentage for annual base
11 pay increases every year and determines the appropriate base pay increases for non-
12 union employees, called CPA.

13

14 **Q. How is the annual CPA determined?**

15 A. Each year, HR staff reviews third-party surveys of competitive trends, turnover
16 statistics, negotiated labor agreements and market economic data to determine how
17 much of an increase is needed to maintain the competitiveness of non-union base pay.
18 Additionally, HR reviews pay increase budget surveys to monitor trends in the general
19 industry and utility segments of the market. As reported in one such survey,
20 WorldatWork's Salary Budget Survey for 2020/2021, the median increase budget
21 implemented and reported by survey organizations for 2020 was 3%. The same recent
22 3% budget trend was reported by employers with operations in the state of Indiana.
23 The survey also reported a 3% budget trend within the utility industry overall. The
24 report also indicated future salary increase projections for 2021 of 3%. CenterPoint
25 senior management takes into consideration HR's review and recommendation, the

1 financial ability to pay, employee turnover, and overall CenterPoint plans and related
2 expenses, among other factors, when determining the overall CPA.

3

4 **Q. How are individual CPA decisions administered?**

5 A. Market data obtained from surveys is used to determine the Market Reference Point
6 ("MRP") for each type of non-union position. This data on market practices is used to
7 administer CPA decisions. In arriving at the CPA, HR develops compa-ratios from the
8 market surveys as an indication of the competitiveness of CenterPoint's base pay
9 versus the survey median base pay reported. A compa-ratio is an expression of
10 employee base pay in relation to survey data. The compa-ratio is calculated by
11 dividing the CenterPoint base pay by the survey-derived MRP, expressed as a
12 percentage. The compa-ratios for non-union jobs are used in the administration and
13 allocation of pay increase budgets to achieve or maintain CenterPoint's market-based
14 pay philosophy. The overall compa-ratio of non-union CenterPoint employees in 2020
15 was [REDACTED] for the Company, indicating that, even with
16 CenterPoint's CPA, overall pay for CenterPoint employees was [REDACTED] the MRP. See
17 Petitioner's Exhibit No. 9, Attachment BRV-2, CONFIDENTIAL Market Compensation
18 Survey Data Compared to CenterPoint.

19

20 **Q. When do CPAs take effect?**

21 A. The CPAs are effective on April 1 each year for employees who are paid semi-monthly
22 and in March for employees who are paid bi-weekly.

23

24 **Q. How are base pay increases determined for union employees?**

25 A. Union base pay increases are addressed by contract. Test year union wages were

1 determined by applying a wage increase of 3%. The last signed contract of Local
2 Union 1393 of the International Brotherhood of Electrical Workers, AFL-CIO
3 ("I.B.E.W.") and United Steel, Paper and Forestry, Manufacturing, Energy, Allied
4 Industrial and Service Workers International Union AFL-CIO, on behalf of Local 12213
5 and Local 7441 ("U.S.W."), expired December 1, 2020. As of the time of my testimony,
6 a new union contract had not yet been signed; however, on November 30, 2020, union
7 members had ratified a negotiated labor agreement, which included an annual
8 increase of 3%.

9

10 **Q. Is a 3% annual base pay increase for non-union employees for 2021 reasonable?**

11 A. Yes. Base pay is the foundation of total pay. Base pay recognizes the job being
12 performed and how it is valued in the competitive job market. As noted previously,
13 CenterPoint uses a market-based approach to set pay levels. The annual CPA is part
14 of CenterPoint's total compensation approach that ensures that pay is sufficient to
15 attract, retain and engage the talent necessary to provide safe, reliable and efficient
16 operations throughout the Company's service territory.

17

18 B. Incentive Compensation

19

20 **Q. Please generally describe the Company's incentive compensation program.**

21 A. Generally, all employees who work for, or support, the Company are eligible to receive
22 incentive pay. This includes operations employees who maintain our distribution lines,
23 connect gas service to customer homes, inspect the Company's system, read
24 customers' meters and employees who handle customer service calls. Employees
25 who further support the Company include billing processing agents and the employees

1 who provide safety and other operations-related training programs. CenterPoint
2 provides incentive compensation in the form of STI and LTI.

3

4 1. Short-term Incentive Plan

5

6 **Q. Does the Company seek recovery of any portion of STI compensation in this**
7 **rate case?**

8 A. Yes. As discussed in the testimony of Petitioner's Witness Ryan Moore, the Company
9 is proposing to recover short-term incentive pay based on 100% of the target level in
10 the test year.

11

12 **Q. Please describe how CenterPoint's Short-term Incentive plan ("STI plan") works.**

13 A. STI is the second component of CenterPoint's market-based total compensation pay
14 philosophy. CenterPoint provides one common STI plan for the entire organization.
15 See Petitioner's Exhibit No. 9 Attachment BRV-3, CenterPoint 2019 Short-term
16 Incentive Plan, for a detailed description of the STI plan. The STI Plan provides the
17 opportunity for all employees to earn incentive pay based on the attainment of annual
18 goals. These goals include a balance of operational, safety and financial goals, which
19 function in an integrated manner to communicate what measures are important for
20 CenterPoint, including Vectren North, to continue to be successful. These goals
21 include customer satisfaction, safety, operation and maintenance expenditure
22 management, net income and earnings per share. In addition, to be eligible for STI
23 awards, employees must meet individual job performance expectations and goals.
24 See Petitioner's Exhibit No. 9, Attachment BRV-4, 2019 STI Plan Goal Results - Union,
25 for more details on union STI pay-out.

1

2 Together, the plan goals are designed to motivate employees to do their best to
3 contribute to the effective operation of CenterPoint and its business units including
4 Vectren North. The plan goals focus employee efforts in ways that help CenterPoint
5 and the Company to encourage employees to execute their job functions safely and
6 to strive for high levels of customer satisfaction. Additionally, the STI goals are
7 designed to maintain the financial health of CenterPoint and to encourage employees
8 to run a cost-efficient business, which ultimately benefits customers.

9

10 By providing incentive pay opportunities that are supported by market studies and
11 comparable to those an employee could find in other companies, CenterPoint is able
12 to assure its customers that experienced and capable employees will be on the job to
13 provide safe and reliable gas service.

14

15 **Q. Do the Company's peers use plans similar to CenterPoint's STI Plan?**

16 A. Yes. Earlier in my testimony I referenced a 2020-2021 survey conducted by
17 WorldatWork. According to that survey, 84% of the 1,702 U.S. survey respondents,
18 including 92 utilities, indicated that they use variable pay or incentive plans. Further,
19 69% of those companies using variable pay use an incentive plan design like
20 CenterPoint's plan, which is based on achieving both the organization's goals and
21 individual performance.

22

23 **Q. How does CenterPoint's average total cash compensation compare to the total**
24 **cash compensation of competitor companies?**

1 A. As noted earlier in my testimony, cash compensation consists of base pay and STI.
2 As with base pay, CenterPoint compares the median total cash compensation levels
3 reported in market surveys to the average total cash compensation of its employees.
4 In 2020, this comparison indicated that the overall average CenterPoint total cash
5 compensation was [REDACTED] the market median total cash compensation of the surveyed
6 companies [REDACTED] Regarding the Company specifically, the average
7 total cash compensation was [REDACTED] the market median [REDACTED]

8

9 **Q. What does this mean from a total pay perspective?**

10 A. This means that if STI was not included, the Company's total pay would be significantly
11 under the market median, especially given that the Company is already under the
12 market median when STI is included.

13

14 **Q. Does the Company's STI compensation meet the standard for recovery**
15 **established by the Indiana Utility Regulatory Commission?**

16 A. Yes. The Company's STI compensation is not a pure profit-sharing plan but instead
17 ties compensation levels to customer service and reliability as well as other goals. In
18 addition, the Company's STI compensation does not cause compensation to exceed
19 the levels reasonably necessary for the Company to attract its workforce. Finally,
20 since the Company is requesting recovery of STI at target, shareholders are
21 responsible for any STI above target. These are the elements I understand the IURC
22 applies when determining the appropriate recovery for incentive compensation,

including when it approved Vectren South's incentive compensation in its most recent general rate case for electric utility service, Cause No. 43839.¹

Q. What were the Company's STI goals and weightings for the 2019 plan year?

A.

GOAL	WEIGHTING
Overall CenterPoint Core Operating Income	35%
Overall CenterPoint Consolidated Diluted Earnings Per Share (EPS)	20%
Overall CenterPoint Operations and Maintenance Expenditures	20%
Vectren Energy Efficiency and Equivalent Forced Outage Rate Composite	5%
Customer Satisfaction Survey and Reliability Composite	10%
Safety Composite	10%

See Petitioner's Exhibit No. 9, Attachment BRV-5, 2019 STI Plan Goal Results, for detailed goal results.

Q. What are the Company's STI goals and weightings for the 2020 plan year?

A.

GOAL	WEIGHTING
Overall CenterPoint Core Net Income	35%
Overall CenterPoint Consolidated Diluted Earnings Per Share (EPS)	10%
Overall CenterPoint Operations and Maintenance Expenditures	25%
Customer Satisfaction Survey and Reliability Composite	15%
Safety Composite	15%

Q. How do the CenterPoint STI goals compare to the STI goals of peer utility companies?

¹ Cause No. 43839, Final Order (IURC 4/27/2011), pages 50-51

1 A. CenterPoint's STI goals are generally consistent with goals used by most of
2 CenterPoint's peer utilities as demonstrated in the Meridian Compensation Partners
3 Incentive Plan Analysis (included as Petitioner's Exhibit No. 9, Attachment BRV-8),
4 which are designed to benefit Company stakeholders such as customers,
5 communities, employees, and shareholders.

6

7 **Q. Do customers benefit from the inclusion of CenterPoint financial goals, in**
8 **addition to operational, customer service, and safety goals?**

9 A. Yes. The goals provide benefits to customers as well as shareholders. Customers
10 directly and materially benefit from the provision of STI awards to the Company's
11 employees based on the attainment of financial goals because these goals encourage
12 expense management and operational efficiencies that benefit customers through
13 lower cost of service, safe and reliable operations, and enhanced customer service.
14 Petitioner's Witness Richard C. Leger provides testimony on the importance of the
15 Company's overall financial health. The STI plan goals are designed to operate in an
16 integrated fashion furthering the interests of all stakeholders.

17

18 **Q. Do the incentive goals help minimize operations and maintenance expense?**

19 A. Yes. The inclusion of expense management goals in the employee total compensation
20 package fosters awareness at all levels that prudent spending practices are expected
21 and necessary. All managers and employees are reminded that their day-to-day
22 actions directly impact the Company's bottom line and its ability to provide service at
23 a reasonable cost to customers.

24

1 **Q. Does the Company's STI compensation cause total pay to exceed levels**
2 **reasonably necessary for the Company to attract employees?**

3 A. No. As mentioned before, CenterPoint measures the value of total compensation
4 against peer companies to ensure that CenterPoint's compensation as a whole is
5 sufficient to recruit, retain, and motivate each level of the workforce needed to serve
6 customers. As long as a utility's total compensation is comparable to its peers and the
7 actual awards under such programs are not excessive, then these costs are as
8 justifiable in today's labor market as is base pay. Even if viewed as a free-standing
9 component of pay, however, STI target levels for Company employees are market-
10 based and are consistent with similarly-situated employees in our peer companies and
11 with other companies with which the Company competes for talent.

12

13 **Q. If the amount paid out to the Company's employees as STI is removed from the**
14 **total pay equation, how does the Company's pay compare to that at peer**
15 **companies?**

16 A. If compensation paid as STI is not included, the Company's total cash compensation
17 is below market when compared to our peers. If the Company stopped paying STI, it
18 would negatively impact the Company's ability to attract and retain the employees it
19 needs to provide safe, and reliable natural gas distribution service.

20

21 **Q. What portion of STI compensation costs is borne by shareholders?**

22 A. Only the target level of STI compensation is included in the revenue requirement in
23 this case. Therefore, all STI compensation in excess of target is borne by
24 shareholders.

25

1 **Q. What have been the STI plan achievement levels for the last five years?**

2 A. STI achievement levels for CenterPoint Energy for the last five years are as follows:

3 2015: 113%

4 2016: 112%

5 2017: 133%

6 2018: 131%

7 2019: 120%

8

9 **Q. Are the costs of STI the Company seeks to recover in this rate case necessary**
10 **and reasonable?**

11 A. Yes, and as I have described in this testimony, they meet the Commission's standard
12 for recovery through rates. STI is a necessary and reasonable component of an
13 employee's total compensation. Incentive compensation opportunities are prevalent
14 across industries. The STI design and plan goals are consistent with peer utilities and
15 other companies with which the Company competes for talent, and individual
16 employee rewards are based on objective performance expectations. In addition, the
17 STI plan pays out only when CenterPoint achieves the plan goals, which are linked to
18 creating benefits for key stakeholders, including customers. Moreover, STI amounts
19 paid in excess of target are borne by shareholders.

20

21 2. Long-Term Incentive Plan

22

23 **Q. Does the Company seek recovery of any portion of LTI compensation in this rate**
24 **case?**

1 A. Yes. As discussed in the testimony of Petitioner's Witness Ryan Moore, the Company
2 is proposing to recover long-term incentive pay based on 100% of the target level in
3 the test year.
4

5 **Q. What is the purpose of the LTI Plan?**

6 A. The LTI Plan is the third component of CenterPoint's total compensation pay
7 philosophy. Like STI, LTI opportunities and goals are based on market compensation
8 studies. LTI pay along with base pay and STI pay comprise the non-benefits portion
9 of the compensation package that CenterPoint offers employees, which is designed to
10 compensate employees at the median (or 50th percentile) of the market. As with STI,
11 LTI is essential for attracting, retaining and motivating plan participants, typically
12 CenterPoint executives and key employees who can influence the long-term
13 performance of CenterPoint. The LTI Plan is also designed to focus the efforts of
14 participants on sustained improvements in CenterPoint's and the Company's
15 performance over longer periods of time, typically three years. It is also designed to
16 retain participants over time to provide continuity of a qualified management team. In
17 this way, the LTI Plan is one tool the Company uses to retain experienced employees
18 who are necessary to ensure the safe, reliable and successful operations of the
19 Company.
20

21 **Q. Who is eligible to participate in the LTI plan?**

22 A. Employees who are Directors and Executives are eligible to participate in the LTI plan.
23 Key employees below the Director level may be nominated to receive an LTI grant in
24 any year.
25

1 **Q. Is it necessary and appropriate for LTI to be offered as part of the total**
2 **compensation package?**

3 A. Yes. LTI pay is a nearly universal component of compensation for employees in
4 executive and key positions among investor owned utilities in today's workplace. In
5 fact, Frederic W. Cook & Co., Inc.'s ("Cook") November 2019 study titled "The 2019
6 Top 250 Report" demonstrates that LTI is a necessary and expected component of
7 executive and management compensation plans. This study includes 16 utility sector
8 companies. A copy of the Cook study is attached as Petitioner's Exhibit No. 9,
9 Attachment BRV-6, FWC 2019 Top 250.

10

11 **Q. How does the total pay level (the combination of base pay, STI and LTI) of**
12 **CenterPoint's LTI-eligible employees compare to the total pay levels found in**
13 **the market?**

14 A. As described previously, annually CenterPoint compares its total pay, including STI
15 and LTI, to the pay found in the market surveys for LTI-eligible employees. The 2020
16 comparison indicates that CenterPoint's average total pay levels when LTI is included
17 are [REDACTED] of the median of the market for LTI eligible employees.
18 Regarding the Company specifically, average total pay is [REDACTED] of the
19 median of the market. In other words, the total pay is [REDACTED] the median of the
20 market.

21

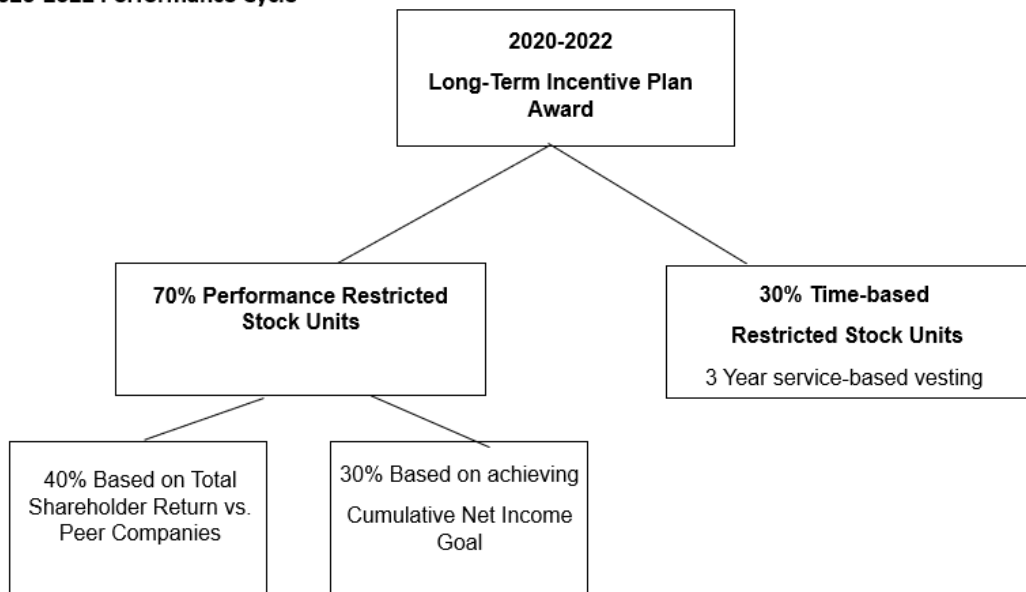
22 **Q. Please explain the components of the LTI plan.**

23 A. LTI pay is a variable compensation component that rewards participants using two
24 different types of awards: (1) performance-based restricted stock units ("RSUs") and
25 (2) time-based RSUs. The performance-based RSUs are based on the achievement

1 of predetermined goals such as total shareholder return and net income goals
 2 measured over a three-year performance period, which must be achieved before
 3 performance shares are awarded. On the other hand, the time-based RSUs are not
 4 financially-based and depend only upon an employee staying with CenterPoint for
 5 three years. This type of LTI award is critical for CenterPoint's and the Company's
 6 ability to retain experienced Executives, Directors and other key employees whose
 7 knowledge and expertise the Company does not want to lose. LTI awards for
 8 employees below the Director level are 100% time-based. The chart below illustrates
 9 the structure of the LTI award for Directors and Executives.

10

**Long-Term Incentive Plan
2020-2022 Performance Cycle**



Note: 70/30 award split applies to Officer and Director participants only. Participants below Director level receive 100% time-based RSUs. The performance stock units are two separate awards, with vesting of each award based on one of the independent goals as listed above.

11

12 Costs for LTI during the test year are represented by the performance-based and time-
 13 based RSUs during the three-year periods that overlap with the 2021 test year: 2018
 14 through 2020, 2019 through 2021, 2020 through 2022, and 2021 through 2023. The

1 LTI goals for the performance-based RSUs for these periods are generally based on
2 total shareholder return and cumulative utility net income for 2018, total shareholder
3 return and cumulative net income for 2019 and 2020, and goals to be determined for
4 2021. These goals are achieved based on the efforts of the plan participants to
5 improve productivity, service, expense management, and other factors that are a
6 necessary part of providing safe and reliable natural gas distribution service. This type
7 of variable incentive plan opportunity motivates and rewards employee performance,
8 which is essential to meeting customer needs and recruiting and retaining a qualified
9 management team. A more detailed explanation of the goals generally associated
10 with the performance-based awards included in test year costs is provided in
11 Petitioner's Exhibit No. 9, Attachment BRV-7, LTI Grant Goals Cycles 2018-2020.

12
13 **Q. Is it reasonable for performance-based LTI to be linked to shareholder return**
14 **and income goals?**

15 A. Yes. CenterPoint's LTI Plan design is very similar to the LTI plan design of other
16 comparable regulated investor-owned utilities that fall within a reasonable range of
17 CenterPoint's annual revenue and current market capitalization. Using a group of peer
18 companies helps align CenterPoint's compensation programs with other companies in
19 the utility industry sector. LTI goals are meant to ensure that participants are focused
20 on the health of the entire company, including Vectren North.

21
22 The Cook study referenced previously reported that 37% of the 250 companies used
23 performance-based LTI with a single performance measure or goal, while 38% of the
24 survey group used two separate performance goals, and 25% used three or more

performance goals. The following are the performance goals and frequency of use of each as reported by the Cook study:

<u>Performance Measure/Goal</u>	<u>Frequency of Use</u>
Total Shareholder Return	65%
Operating/Net Income	54%
Capital Efficiency	40%
Revenue	22%
Cash Flow	13%
Other (Safety, Quality, New Business)	14%

Additionally, according to a proxy statement analysis of 18 CenterPoint peer companies conducted by Meridian in 2019, 16 of the 18 companies used total shareholder return as a metric for their LTI plans. Twelve of the 18 peer companies used two goals, three used a single goal, and three companies used three goals. The most common goal reported was total shareholder return, which is a component of CenterPoint's LTI plan. The Meridian analysis is included as Petitioner's Exhibit No. 9, Attachment BRV-8, CONFIDENTIAL - Meridian Analysis. The independent Cook and Meridian studies show that LTI is a common component of utility total compensation plans and CenterPoint's selection of specific LTI goals is very similar to those of other utilities within its peer group, which indicates that CenterPoint's LTI Plan is reasonable.

Q. Does awarding compensation linked to total shareholder return and income goals benefit customers?

1 A. Yes. Customers benefit from CenterPoint's LTI Plan because it enables CenterPoint
2 to attract and retain a quality management team that is focused on improving
3 CenterPoint's performance, including that of Vectren North. Without LTI, CenterPoint
4 would be lacking an important component of an effective total compensation package
5 to compete for the right talent in today's job market. It is costly to lose experienced
6 and knowledgeable employees who are familiar with CenterPoint and the Company.
7

8 **Q. Are there any other ways that CenterPoint's LTI plan benefits customers?**

9 A. Yes. Achievement of strong financial performance is a direct benefit to customers.
10 Positive operating income is a direct result of the prudent management of operating
11 expenses. Similarly, positive total shareholder return reflects strong performance from
12 all CenterPoint operating divisions, which attracts capital for maintaining and investing
13 in the Company's infrastructure to deliver safe and reliable gas distribution service.
14 Therefore, higher employee productivity, careful control of operations and
15 maintenance costs, attention to customer service levels and customer retention,
16 adherence to employee and customer safety procedures, and other customer-based
17 actions assist in minimizing expenses and achieving stable earnings. These are
18 factors that are within the direct influence of employees, including LTI Plan
19 participants.
20

21 **Q. Are the costs the Company is seeking to recover associated with the LTI plan a**
22 **reasonable and necessary cost of providing service?**

23 A. Yes. The LTI plan awards stock to participants when CenterPoint achieves the plan
24 goals, which are aligned with customer and shareholder interests, or when employees
25 remain with CenterPoint for at least three years. LTI pay opportunities are prevalent

1 in the utility industry segment, and the LTI Plan design and goals are consistent with
2 peer utilities as demonstrated by market studies, including the Cook report and the
3 Meridian analysis.

4

5 **Q. Has the Commission approved the recovery of LTI in previous Dockets?**

6 A. Yes. In the most recent Southern Indiana Gas and Electric Company d/b/a Vectren
7 Energy Delivery of Indiana, Inc., "Indiana Electric" rate case, the Commission
8 approved the recovery of proposed long-term incentive compensation, which was up
9 to the board approved target level. The evidence showed that shareholders bear the
10 expense of incentive compensation in excess of the target level.²

11

12 In the most recent Indiana Gas Company, Inc. d/b/a Vectren Energy Delivery of
13 Indiana, Inc., "Indiana Gas North" and Southern Indiana Gas and Electric Company
14 d/b/a Vectren Energy Delivery of Indiana, Inc., "Indiana Gas South" rate cases, the
15 parties settled with long-term incentive compensation reflecting target levels of
16 payouts to employees.³

17

18 **Q. Does the Company's LTI compensation meet the standard for recovery?**

19 A. Yes. I have already described the various ways in which the LTI compensation aligns
20 with the interests of the Company's customers. Moreover, I have described the ways
21 in which LTI allows the Company to remain competitive in the overall compensation

²Cause No. 43839, Final Order (IURC 4/27/2011), pages 50-51.

³Indiana Gas North, Cause No. 43298, Settlement Agreement, Appendix C, approved by Order dated February 13, 2008 and Petitioner's Exhibit No. MSH-1 pages 11-12; Indiana Gas South, Cause No. 43112, Settlement Agreement, pages 6-7, approved by Order dated August 1, 2007.

1 offered to employees. The comparison to the market demonstrates that LTI
2 compensation does not cause total pay to exceed levels needed to attract and retain
3 a qualified workforce. Finally, as with STI, the Company is seeking to recover the
4 costs of LTI at 100% of target; shareholders bear all LTI costs in excess of target.

5

6 3. Compensation Summary

7

8 **Q. Why does the Company not provide total pay through only base pay without**
9 **incentive compensation?**

10 A. Compensating employees solely through base pay with no opportunity for variable
11 incentive pay reflects an outdated and less than competitive approach to current
12 compensation practices. In addition, CenterPoint designs its compensation plans,
13 consistent with peer companies, to include tangible goals to motivate positive and
14 productive employee behavior that benefits stakeholders including customers,
15 employees, and shareholders. Incentive pay motivates employees to provide quality
16 customer service, perform their jobs effectively, achieve operating efficiencies, and
17 maintain a safe and reliable gas delivery system. It also allows the Company to reward
18 and retain high performers. If CenterPoint relied solely on base pay, it would constrain
19 CenterPoint's ability to use compensation as a tool to motivate employees to work
20 towards CenterPoint-wide goals and achieve high levels of individual performance as
21 well. Doing so would also be inconsistent with market compensation studies that
22 support the use of STI and LTI as part of a competitive total compensation package.

23

24 **Q. Is it important for the Company to recover costs related to STI and LTI?**

1 A. Yes. An employee's total pay opportunity is determined by targeting the median total
2 pay, including incentive compensation, of similar positions in the industry. If an
3 employee does not have the opportunity to receive incentive pay, then the employee
4 will receive less than the median pay of similar positions within the industry, putting
5 the Company at a competitive disadvantage. The STI and LTI compensation costs
6 requested in this case provide total pay opportunities that are well aligned with the
7 market median total pay levels.

8
9 In addition, it is my understanding that general ratemaking principles indicate that a
10 utility should recover its reasonable and necessary expenses prudently incurred in
11 operating its business. My testimony and related market compensation studies show
12 that each component of CenterPoint's compensation expenses is reasonable due to
13 the levels at which they are set and the reasonableness of compensating employees
14 in the form of incentive pay. CenterPoint's compensation costs are also necessary to
15 provide appropriate motivation to encourage employees to perform their jobs safely
16 and cost effectively. For these reasons, compensation costs, including all requested
17 incentive plan costs, should be recovered through rates.

18

19 **Q. Are all the Company's pay components reasonable and necessary?**

20 A. Yes, and as described above they meet the Commission's standards for recovery
21 through rates. The total pay offered to CenterPoint and Company employees is
22 reasonable, necessary and prudent. As noted above, CenterPoint evaluates its pay
23 from a total compensation perspective, as total compensation is the key factor in
24 determining whether the Company is offering sufficient pay to attract, retain, and
25 motivate the qualified work force it needs to conduct its business. Incentive pay is an

1 essential part of the overall compensation picture, and CenterPoint factors in incentive
2 pay when comparing the pay it offers to its employees to that offered by peer
3 companies.

4

5

6 **III. BENEFITS**

7

8 A. Benefits Philosophy and Components

9

10 **Q. What is the philosophy of CenterPoint as it pertains to benefits?**

11 A. CenterPoint's benefits philosophy is to provide a comprehensive set of benefits to
12 meet our employees' welfare and financial security needs in an affordable and efficient
13 manner with the overall value targeted at the midpoint of the marketplace, the same
14 as CenterPoint's pay philosophy. CenterPoint uses a "one-company" approach where
15 possible with the objective of offering a common set of benefits to all employees in all
16 business units. CenterPoint leverages its size and the expertise of its HR staff to get
17 the best value it can for its benefits expenditures.

18

19 **Q. What are the benefits that CenterPoint offers?**

20 A. CenterPoint offers the following types of benefits:

21 (1) Health and Welfare benefits

22 (2) Retirement Plan, Supplemental Executive Retirement Plan, and Benefits
23 Restoration Plan

24 (3) Savings Plan and Savings Restoration Plan

25 (4) Post-retirement Benefits

1 (5) Post-employment Benefits

2 (6) Deferred Compensation Plan

3 I address most of these benefits below in greater detail. Because the Company is not
4 seeking recovery of costs associated with its Deferred Compensation Plan in this rate
5 case, I do not discuss this plan in detail.

6

7 **Q. What terms will you be using in your testimony to define groups of employees**
8 **as it relates to benefits programs?**

9 A. I will refer to employees of CenterPoint Energy companies prior to the Vectren
10 Corporation merger as "legacy CenterPoint employees." I will refer to employees of
11 Vectren Corporation companies as "legacy Vectren employees." Company costs
12 include benefits for legacy CenterPoint and legacy Vectren employees.

13

14 **Q. What tools does CenterPoint use to determine that the overall value of the**
15 **benefits offered to employees is consistent with market median values?**

16 A. CenterPoint participates in the Willis Towers Watson Benefits Data Source, which is
17 an online database that contains detailed benefit plan provisions for [REDACTED] organizations,
18 including [REDACTED] utility and energy companies, for benefit plan prevalence results.
19 CenterPoint uses this benchmarking database tool that is proprietary to Willis Towers
20 Watson to compare its benefit plans to the plans of other participating companies.

21

22 **Q. Have there been any significant changes in benefit plans or benefit plan design**
23 **from 2019 to 2020?**

24 A. Yes. CenterPoint implemented various administrative changes or plan design changes
25 in an effort to harmonize benefits across the organization following the merger with

1 Vectren Corporation, and as part of its annual review of the competitiveness of benefits
2 offered to attract and retain employees necessary to serve its customers. For
3 example, the Vectren Corporation Retirement Savings Plan was merged into the
4 CenterPoint Energy Savings Plan, which was amended and restated effective January
5 1, 2020. In addition, certain health and welfare design changes were implemented in
6 2020, such as the addition of a new Preferred Provider Organization (PPO) plan for
7 legacy Vectren employees (except certain unions).

8

9 B. Health and Welfare Plans

10

11 **Q. What Health and Welfare plans does CenterPoint provide?**

12 A. CenterPoint provides medical (including prescription drug), dental, vision, life
13 insurance, accidental death and dismemberment insurance, and long-term disability
14 benefits.

15

16 **Q. Is the provision of health and welfare benefits to employees necessary and**
17 **reasonable?**

18 A. Yes. The provision of health and welfare benefits to employees is an industry
19 standard. In fact, of the [REDACTED] organizations in the Willis Towers Watson Benefits Data
20 Source – U.S. Broad-Based Database, [REDACTED] provide active medical and dental plans.
21 In order to attract and retain a qualified and effective workforce, CenterPoint seeks to
22 provide a comprehensive and competitively-based package of health and welfare
23 benefits. Health and welfare benefits help shield employees and their families from
24 financial loss and protect the health and well-being of employees and their dependents
25 during their careers.

1

2 **Q. What is CenterPoint's philosophy with respect to benefits cost sharing?**

3 A. CenterPoint shares the cost of benefits with employees who participate in the plans.
4 For example, for coverage in the medical plan, Vectren North, in general, has an
5 80/20% employer/employee cost share of claims paid by the plan. Employees have
6 contributions deducted from their pay at a rate designed to achieve the referenced
7 cost sharing ratio. In addition to the costs incurred directly through employee
8 contributions, plan participants incur out-of-pocket expenses such as deductibles, co-
9 insurance, and co-pays when they utilize the medical plan. These out-of-pocket
10 expenses vary based on the design of the particular medical plan offered to
11 employees. CenterPoint makes periodic adjustments in plan design to remain
12 competitive both with other utility companies and large employers in general.

13

14 **Q. How does HR help CenterPoint ensure that the insurance carriers and**
15 **administrators CenterPoint uses are charging a competitive rate for their**
16 **services?**

17 A. For all insured plans, CenterPoint uses brokers to ensure that administrative services
18 are competitively priced. The HR organization also meets from time to time with
19 consultants, benefit providers, and insurance carriers to discuss competitive trends,
20 cost projections, and plan design. Additionally, HR periodically solicits third-party bids
21 on its insured plans. Typically, CenterPoint utilizes multi-year agreements of at least
22 three years' duration to lock in competitive pricing. We also work jointly with our
23 insurance carriers to design benefit plans to help manage cost and maintain
24 competitiveness. This objective is also achieved by aggregating CenterPoint

1 employees into insurance pools to leverage CenterPoint's size to obtain the best rates
2 possible.

3

4 **Q. Does CenterPoint take steps to control the rising costs of healthcare?**

5 A. Yes. Each year CenterPoint reviews its medical claims experience and compares it
6 with industry trends to estimate future medical plan costs. Based on these cost
7 increase projections, administrative changes and plan design changes are
8 recommended to management to help control or reduce rising costs while maintaining
9 a competitive benefits package.

10

11 C. Retirement Plans and Benefit Restoration Plan

12

13 **Q. Please describe CenterPoint's retirement benefit plans.**

14 A. CenterPoint's retirement plans are qualified defined benefit pension plans that are
15 intended to provide employees with income in retirement. Certain employees are
16 eligible for participation under a retirement plan, which sets up a cash balance account
17 for each employee. Eligibility for a retirement plan is limited to a small group of
18 grandfathered legacy Vectren non-union employees, non-union legacy CenterPoint
19 employees hired prior to January 1, 2020, and certain union employees. Listed below
20 are the retirement plans:

- 21 • CenterPoint Energy Retirement Plan (closed to new hires effective 1/1/2020)
- 22 • Vectren Non-Bargaining Unit Plan (closed to new hires effective 7/1/2013)
- 23 • Vectren Southern Indiana Gas and Electric Company Retirement Plan (closed to
24 new hires effective 7/1/2010)

- Vectren Indiana Gas Company Bargaining Unit Retirement Plan (closed to new hires effective 7/21/2009)

Generally, CenterPoint credits each employee account with a contribution equal to 5% of the employee's eligible compensation. The employee accounts earn interest equal to the average return on 30-year Treasury securities for November of the prior year. Employees are fully vested in their account balances after completing three years of service.

Q. What is the Benefit Restoration Plan ("BRP")?

A. The BRP is an unfunded, non-qualified retirement plan that restores retirement benefits for employees that would have been paid under the Retirement Plan, had they not been subject to limitation under the Internal Revenue Code. The BRP is simply a way for CenterPoint to offer employees at all levels comparable retirement benefits. In addition, a very limited number of legacy Vectren executives are eligible for participation in the Vectren Corporation Nonqualified Defined Benefit Restoration Plan.

Q. What is the Vectren Corporation Unfunded Supplemental Retirement Plan For a Select Group of Management Employees ("SERP")?

A. The SERP is an unfunded, non-qualified supplemental retirement plan for a select group of management employees of Vectren Corporation. Effective with the close of the Vectren Corporation merger in February 2019, this plan does not have active employees and is closed.

Q. How is the Retirement Plan expense determined?

1 A. Generally, the Retirement Plan expense is based on the actuarial expense as
2 calculated by our actuarial firm, Aon Hewitt.

3

4 **Q. Is the provision of a Retirement Plan and BRP to employees reasonable and**
5 **necessary?**

6 A. Yes. Most utility and energy companies provide defined-benefit retirement plans,
7 especially for bargaining unit employees. The CenterPoint BRP is simply an extension
8 of the Retirement Plan that is designed to restore benefit limitations imposed under
9 the Internal Revenue Code. These plans are a necessary part of providing a
10 competitive package of benefit programs that allows CenterPoint to attract and retain
11 qualified employees and leadership.

12

13 D. Savings Plan and Savings Restoration Plan

14

15 **Q. What are the basic features of CenterPoint's Savings Plan?**

16 A. The Savings Plan is a qualified defined contribution plan. All CenterPoint employees
17 are eligible for the Savings Plan. Employees may contribute to the Savings Plan on a
18 pre-tax basis and on an after-tax basis. CenterPoint matches the employee
19 contribution dollar for dollar up to an amount equal to 6% of the employee's eligible
20 compensation each pay period. Effective January 1, 2020 certain employees
21 participate in the defined contribution only benefits approach whereby CenterPoint
22 matches dollar for dollar up to 6% of eligible compensation plus a 3% non-matching
23 contribution. Generally, these employees include legacy Vectren non-union employee
24 hired, rehired or transferred on or after January 1, 2013, a small group of non-union
25 employees hired prior to January 1, 2013, and employees hired or rehired beginning

1 January 1, 2020, with the exception of certain union employees who are still eligible to
2 participate in a Retirement Plan. Participants direct their contributions, including the
3 match, into various investment options offered by the plan. Non-union employees are
4 immediately fully vested in their contributions as well as the Company's matching and
5 non-matching contributions.

6

7 **Q. What is the Savings Restoration Plan ("SRP")?**

8 A. The SRP is an unfunded, non-qualified savings plan. The SRP restores amounts the
9 employer would have contributed absent the Internal Revenue Code limits. The rate
10 of return earned in the plan is based on each participant's actual rate of return earned
11 under the Savings Plan.

12

13 **Q. Are the expenses associated with the Savings Plan and SRP reasonable and**
14 **necessary?**

15 A. Yes. [REDACTED] of the organizations, including all [REDACTED] utility and energy companies
16 in the Willis Towers Watson Benefits Data Source – U.S. Broad-Based Database,
17 provide defined contribution plans. The SRP is merely an unfunded, non-qualified
18 extension of the Savings Plan to restore benefits due to limitations under the Internal
19 Revenue Code. Therefore, in order to provide a competitive package of benefit
20 programs that allows CenterPoint to attract and retain qualified employees and
21 leadership, the provision of the Savings Plan and SRP is reasonable and necessary.

22

23 **Q. Why does CenterPoint provide both Retirement and Savings plans?**

24 A. CenterPoint provides market-based retirement benefits to enable employees to
25 provide for their financial security in retirement. CenterPoint provides both a

1 Retirement Plan and a Savings Plan because both types of plans are important to help
2 employees achieve their retirement income goals. CenterPoint bears the
3 responsibility of providing the benefit as defined by the Retirement Plan. In contrast,
4 with respect to the Savings Plan, similar to other 401(k) plan designs, the employee
5 makes the decision as to whether to participate in the plan, the degree of participation
6 and the actual investments held in the plan.

7

8 **Q. Does CenterPoint take steps to manage costs related to its Retirement and**
9 **Savings Plans?**

10 A. Yes. For example, in 2018, CenterPoint amended the Retirement Plan to provide for
11 the purchase of an annuity contract to fund small annuities under the Retirement Plan.
12 This change was made to reduce administrative costs in the Plan.

13

14 E. Post-retirement Benefits

15

16 **Q. What are post-retirement benefits?**

17 A. Post-retirement benefits are medical, dental, and life insurance plans that are provided
18 to retired employees, their beneficiaries and covered dependents. This would include
19 benefits paid to surviving spouses and dependents of retired employees.

20

21 **Q. Please explain CenterPoint's post-retirement benefits.**

22 A. CenterPoint's post-retirement benefit plans are defined dollar health and welfare
23 benefit plans that provide retiree medical and dental benefits to eligible employees.
24 Generally, employees become eligible for the postretirement benefits at age 55 after
25 meeting certain eligibility requirements which can vary by business unit. Benefit

1 coverage is similar to benefits coverage under the medical plans offered to active
2 employees until they attain age 65. When a retiree and/or eligible spouse attains age
3 65, benefits are provided under a fully-insured Medicare Advantage program. The
4 costs of post-retirement benefits generally are shared between CenterPoint and the
5 retirees.

6

7 **Q. Are the Company's post-retirement benefits a reasonable and necessary**
8 **expense?**

9 A. Yes. [REDACTED] of the utility and energy peer group in the Willis Towers Watson
10 Benefits Data Source – U.S. Broad-Based Database provides post-retirement
11 benefits. Therefore, to provide a competitive package of benefit programs that allows
12 the Company to retain qualified employees, the provision of post-retirement benefits
13 is reasonable and necessary. However, CenterPoint has determined that post-
14 retirement benefits are not as prevalent for new hires and therefore, CenterPoint
15 discontinued offering post-retirement benefits to legacy CenterPoint employees hired
16 from and after January 1, 2018.

17

18 **Q. Does CenterPoint take steps to manage the costs related to post-retirement**
19 **benefits?**

20 A. Yes. Each year, CenterPoint reviews its retiree medical claims experience and
21 compares it with industry trends to calculate future medical plan costs. In addition,
22 plan design changes are recommended to help reduce rising costs while maintaining
23 competitive benefit plans.

24

25 **Q. How is the test year amount of post-retirement plan expense determined?**

1 A. The amount of test year post-retirement plan expense is based upon expectations of
2 future post-retirement plan expense in 2021 as estimated by Aon Hewitt in 2019. The
3 test year projected expense reflects our best-known estimate at this time as provided
4 by Aon Hewitt based on actuarial assumptions using the Company's employee
5 population.

6

7 F. Post-employment Benefits

8

9 **Q. What are post-employment benefits?**

10 A. Post-employment benefits are medical, dental, and life insurance plans that are
11 provided to certain inactive employees, their beneficiaries and covered dependents
12 after employment, but before retirement. This would include benefits to surviving
13 spouses and dependents of active employees and employees approved for long-term
14 disability benefits.

15

16 **Q. What is included in post-employment benefit expense?**

17 A. Post-employment benefit expense for legacy CenterPoint employees includes post-
18 employment benefits costs determined as required by Generally Accepted Accounting
19 Principles under ASC Topic 712, Compensation – Nonretirement Post-employment
20 Benefits, formerly SFAS No. 112 “Employers’ Accounting for Postemployment
21 Benefits,” as calculated by Aon Hewitt. The annual expense consists of an accrual for
22 the present value of future health and welfare benefits for certain inactive employees,
23 their beneficiaries and covered dependents. The accrual is determined at the
24 Company level based on the underlying demographic data of Company employees.

25

1 **Q. Is it reasonable and necessary to provide employees with post-employment**
2 **benefits?**

3 A. Yes. Providing post-employment benefits provides security to employees and their
4 families against unforeseen incidents and is common across multiple industry
5 segments. In the Willis Towers Watson Benefits Data Source – U.S. Broad-Based
6 Database, [REDACTED] of participants provide long term disability plans. Such
7 benefits are part of the competitive package of benefit programs offered by
8 CenterPoint to attract and retain qualified employees.

9

10 **Q. How is the test year post-employment benefit amount determined?**

11 A. The test year amount of post-employment benefit expense for employees is calculated
12 by CenterPoint's actuary, Aon Hewitt, based upon post-employment expense for 2019.

13

14 G. Deferred Compensation Plan

15

16 **Q. What is the Deferred Compensation Plan?**

17 A. The Deferred Compensation Plan is a non-qualified, unfunded savings vehicle. Only
18 executive level employees are eligible to participate. The plan allows eligible
19 employees to defer receipt for income tax purposes of base pay and/or STI payments,
20 until distribution. Annually, the deferred amount is credited with interest, also on a tax-
21 free basis until distribution.

22

23 **Q. Is the Company seeking recovery of any costs associated with its Deferred**
24 **Compensation Plan?**

1 A. No. The Company is not seeking recovery of these expenses in this rate case. The
2 Company reserves its right to request recovery in future proceedings.
3
4

5 **IV. CONCLUSION**
6

7 **Q. Are the compensation and benefit plan costs the Company seeks to recover**
8 **reasonable?**

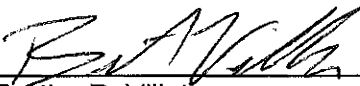
9 A. Yes. My testimony shows that the Company's compensation and benefit plans are
10 designed to target the median of the market of both the general and utility industries.
11 Incentive compensation provides the opportunity for employees to earn compensation
12 that is competitive compared to the market and motivates employees to serve the
13 interests of customers, the Company and shareholders. The benefits plans
14 CenterPoint offers are also reasonable and their costs are reasonable and necessary
15 to attract and retain qualified employees. Additionally, in developing the compensation
16 and benefits costs for which the Company seeks recovery in this case, the Company
17 relied upon prior Commission decisions. Finally, CenterPoint's compensation and
18 benefits costs included in the Vectren North cost of service are reasonable and
19 necessary expenses to support the Company's provision of safe, reliable and cost-
20 effective service to its customers and should be recovered in rates.
21

22 **Q. Does this conclude your prepared direct testimony?**

23 A. Yes, it does.

VERIFICATION

I, Bertha R. Villatoro, affirm under the penalties of perjury that the forgoing representations of fact in my Direct Testimony are true to the best of my knowledge, information and belief.



Bertha R. Villatoro

Dated: December 18, 2020

Attachment BRV-1 provided in Excel format

Attachment BRV-2 (PUBLIC) provided in Excel format

DESCRIPTION OF CENTERPOINT ENERGY SHORT TERM INCENTIVE PLAN
REVISED 12 31 2019

General

The Short-Term Incentive (STI) Plan is a company-wide annual incentive plan intended to reward employees for their contributions toward the overall success of the company, as well as individual performance achievements. The STI plan provides variable cash compensation that is linked to performance and is competitive with peer companies. The common plan design features apply to all eligible employees.

Funding

STI payments made under the plan are funded annually based on the achievement of a combination of financial, operational, customer service, and employee safety goals. Goals and weightings, target awards, and target funding under the plan are pre-determined annually at the beginning of the performance period. Each goal includes a threshold performance level that must be met for any level of funding and a maximum performance level corresponding to a maximum level of funding (up to 200% depending on the goal). The actual amount payable from the funding pool to an individual employee is 100% discretionary to reflect individual performance and any special circumstances.

Target Opportunity

An employee's STI target award is the annual incentive opportunity expressed as a percent of the employee's annual eligible compensation and based on achievement of the goals and performance expectations at the target performance level. Most union employees have an incentive target percentage between 1-5% or as outlined in the collective bargaining agreement. Most non-union employees have an incentive target percentage of 5% -10% of eligible pay. Higher level managers will tend to have a greater percentage of total pay at risk, and therefore, higher incentive targets.

Awards

STI awards are 100% discretionary based on the company's overall performance and a management assessment of individual performance. Awards, if any, are typically paid in March.

Eligibility

Employees are eligible to participate in the STI Plan if they are:

- A regular, full or part time (at least 20 hours per week) employee;
- Hired by the last business day prior to October 1 of the performance year;
and
- Continuously employed through the STI payment date.

Employees covered by a collective bargaining agreement are eligible to participate in the STI Plan only to the extent provided under the specific terms of the applicable collective bargaining agreement.

Employees covered by a collective bargaining agreement that does not specifically provide for participation in the STI Plan are not eligible for any payments under the plan under any circumstances.

Special Circumstances

- **Retirement:** If an eligible employee retires during the performance year and was an eligible employee on January 2 of the year, the retiree will receive an STI payment for that year at the target level, prorated based on eligible compensation during the plan year prior to retirement and paid within 30 days of the retirement date. If an eligible employee retires after the last day of the performance year but before the STI for that year is paid, the retiree will receive an STI payment, if any, based on actual company achievement of performance goals, individual performance, and eligible compensation earned during the plan year. The payment will be made on the company-wide payment date in March. To be eligible for an STI payment upon retirement, as described above, a retiree must be age 55 or greater with at least 5 years of service at the time of retirement.
- **Long-Term Disability or Death:** If an eligible employee qualifies for benefits under the company long-term disability plan or dies during the performance year, the employee will receive an STI payment for that year at the target level, prorated based on eligible compensation earned during the performance year prior to the date the employee commences long-term disability or dies and paid within 30 days after that date. If an eligible employee qualifies for benefits under the company long-term disability plan or dies after the last day of the performance year but before the STI for that year is paid, the employee will receive an STI payment for that year, if any, at the actual company achievement of performance goals, without regard to individual performance, and based on eligible compensation earned during the performance year. The STI payment will be made on the company-wide payment date in March.
- **Leave of Absence:** Regardless of their status on leave of absence, employees who have earned eligible compensation during the performance year and otherwise satisfy the eligibility requirements will receive STI payments in the same manner as other eligible employees on the company-wide payment date.
- **Terminations:** Except as described above for retirement, death, or disability, if an employee terminates employment at any time prior to the STI payment date (either during or after the performance year), the employee will not be eligible to receive an STI payment for the year.

This summary is for informational purposes only and does not address all applicable requirements and conditions. The information provided in this summary does not replace the official plan documents. If there is a conflict between this summary and the plan documents, the official plan documents always control and govern. The Company reserves the right to amend, suspend or terminate the plan at any time, in whole or in part. Current participation in the plan does not guarantee future eligibility for the plan or any other benefit program. Participation in the plan is not an offer or guarantee of employment.

**CENTERPOINT ENERGY, INC.
SHORT TERM INCENTIVE PLAN**

(As Amended and Restated Effective January 1, 2019)

RECITALS

Effective for Plan Years beginning on or after January 1, 2019, the Board of Directors of CenterPoint Energy, Inc. (the "Company") has adopted the CenterPoint Energy, Inc. Short Term Incentive Plan (As Amended and Restated Effective January 1, 2019) (the "Plan") on the terms and conditions hereinafter stated. The Plan, as set forth herein, amends and restates, in its entirety the CenterPoint Energy, Inc. Short Term Incentive Plan (As Amended and Restated Effective January 1, 2003) (the "Prior Plan").

There shall be no termination and no gap or lapse in time or effect between the Prior Plan and this Plan. The amendment, restatement and continuation of the Prior Plan in the form of this Plan shall not operate to exclude, diminish, limit or restrict the payments or continuation of payments of benefits to Participants under the terms of the Prior Plan as in effect prior to its amendment, restatement and continuation in the form of this Plan. Except to the extent otherwise required to reflect the fact that benefits accrued under the Prior Plan are continued under this Plan, the provisions of this Plan shall apply only to an employee eligible to participate under this Plan on or after January 1, 2019.

NOW, THEREFORE, effective for Plan Years beginning on or after January 1, 2019, the Company hereby amends and restates in its entirety and continues the Prior Plan as follows:

1. ***Purpose:*** The purpose of the Plan is to encourage a high level of corporate performance through the establishment of predetermined corporate, Subsidiary or business unit and/or individual goals, the attainment of which will require a high degree of competence and diligence on the part of those Employees (including officers) of the Company or of its participating Subsidiaries selected to participate in the Plan, and which will be beneficial to the owners and customers of the Company.

2. ***Definitions:*** Unless the context otherwise clearly requires, the following definitions are applicable to the Plan:

Award: An incentive compensation award generally payable in cash granted to a Participant with respect to a particular Plan Year pursuant to any applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

Board of Directors or Board: The Board of Directors of the Company.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Committee: The Compensation Committee of the Board of Directors.

Company: CenterPoint Energy, Inc. or any successor thereto.

Compensation: Compensation or eligible earnings during the year means the actual base salary paid to a salaried exempt Participant during the Plan Year, including vacation, holiday and sick time. Eligible earnings exclude all special payments, bonuses, allowances, reimbursements, and payments in lieu of overtime. Compensation or eligible earnings during the year means the actual gross wages paid to an hourly or salaried non-exempt Participant during the Plan Year, including vacation, holiday and sick time. Eligible earnings exclude all special payments, bonuses, allowances, reimbursements, but include overtime pay in a manner consistent with the requirements of applicable labor law. Notwithstanding the foregoing, any Participant covered by the terms of a collective bargaining agreement shall have his Compensation calculated in the manner consistent with the collective bargaining agreement, if applicable.

Employee: An employee of the Company or any of its Subsidiaries who is a regular full or part-time employee and who regularly works at least 20 hours per week.

Employer: The Company and each Subsidiary which is designated by the Committee as an Employer under this Plan.

Participant: An Employee who is selected to participate in the Plan.

Payment Date: The date an Award shall be paid as provided in Section 8(b) of the Plan.

Performance Goals: The performance objectives of the Company, its Subsidiaries or its business units and/or individual Participants established for the purpose of determining the level of Awards, if any, earned during a Plan Year.

Plan: This CenterPoint Energy, Inc. Short Term Incentive Plan, as amended from time to time.

Plan Year: The calendar year.

Retirement Date: A Participant's date of termination of employment with his Employer (and all other Employers and affiliates of the Company) that is on or after the date on which he has (i) attained age 55 and (ii) completed five years of "Vesting Service" (as defined in the Retirement Plan).

Retirement Plan: CenterPoint Energy Retirement Plan, as amended and restated effective January 1, 2016, and as thereafter amended.

Subsidiary: A subsidiary corporation with respect to the Company as defined in Section 424(f) of the Code.

A pronoun or adjective in the masculine gender includes the feminine gender, and the singular includes the plural, unless the context clearly indicates otherwise.

3. ***Participation:*** The Committee (or its appropriately designated delegate) shall select the Employees who will be Participants for each Plan Year. No Employee shall at any time have the right (a) to be selected as a Participant in the Plan for any Plan Year, (b) if so selected, to be entitled to an Award, or (c) if selected as a Participant in one Plan Year, to be selected as a Participant in any subsequent Plan Year. The terms and conditions under which a Participant may participate in the Plan shall be determined by the Committee (or its appropriately designated delegate) in its sole discretion.

4. ***Eligibility:*** Except as provided below, only Participants who (x) are Employees on the last business day prior to October 1 of the Plan Year and (y) are continuously Employees from such date through the Payment Date are eligible for the payment of an Award under the Plan. Employees covered by a collective bargaining agreement providing for participation in this Plan are eligible for payments under this Plan only to the extent of the specific terms contained in the applicable collective bargaining agreement. Employees covered by a collective bargaining agreement that does not specifically provide for their participation in this Plan are not eligible for any payments under this Plan under any circumstances notwithstanding the following.

(a) *Retirement, Death or Disability During the Plan Year:*

(i) *Retirement:* If a Participant (A) was an Employee on January 2 of the Plan Year and (B) terminates during the Plan Year on his Retirement Date, then the Participant shall nonetheless receive a payment of the Award the Participant would have received had the Performance Goals with respect to the Participant's Award been met at the target level, without regard to the Participant's individual performance, based on his Compensation earned prior to the Participant's Retirement Date. Payments under this clause (i) shall be made as soon as practicable following the Participant's Retirement Date, but no later than 30 days after the Retirement Date.

(ii) *Death or Disability:* If, during the Plan Year, a Participant dies or terminates employment under circumstances establishing eligibility for disability benefits under the Company's long-term disability plan, then the Participant shall nonetheless receive payment of the Award the Participant would have received had the Performance Goals with respect to the Participant's Award been met at the target level, without regard to the Participant's individual performance, based on his Compensation earned prior to the Participant's death or disability. Payments under this clause (ii) shall be made as soon as practicable following the date of the Participant's death or

disability, but no later than 30 days after the date of the Participant's death or disability.

(b) *Retirement, Death or Disability After Last Day of the Plan Year:*

(i) *Retirement:* If a Participant would be eligible for the payment of an Award under the prior provisions of this Section 4 except that, after the last day of the Plan Year and before the Payment Date, the Participant terminates employment on his Retirement Date, then the Participant shall nonetheless receive a payment of the Award (if any) based on the Committee's determination of actual achievement of the Performance Goals with respect to the Participant's Award, the Participant's individual performance during the Plan Year, and his Compensation earned during the Plan Year. Payments under this clause (i) shall be made as provided in Section 8(b).

(ii) *Death or Disability:* If a Participant would be eligible for the payment of an Award under the prior provisions of this Section 4 except that, after the last day of the Plan Year and before the Payment Date, the Participant dies or terminates employment under circumstances establishing eligibility for disability benefits under the Company's long-term disability plan, then the Participant shall nonetheless receive payment of the Award (if any) based on the Committee's determination of actual achievement of the Performance Goals with respect to the Participant's Award, without regard to the Participant's individual performance, and his Compensation earned during the Plan Year. Payments under this clause (ii) shall be made as provided in Section 8(b).

5. ***Plan Administration:*** The Plan shall be administered by the Committee. All decisions of the Committee shall be binding and conclusive on the Participants. The Committee, on behalf of the Participants, shall enforce this Plan in accordance with its terms and shall have all powers necessary for the accomplishment of that purpose, including, but not by way of limitation, the following powers:

- (a) To select the Participants;
- (b) To interpret, construe, approve and adjust all terms, provisions, conditions and limitations of this Plan;
- (c) To decide any questions arising as to the interpretation or application of any provision of the Plan;
- (d) To prescribe forms and procedures to be followed by Employees for participation in the Plan, or for other occurrences in the administration of the Plan;

(e) To establish the terms and conditions of any Agreement under which an Award may be earned and paid; and

(f) In addition to all other powers granted herein, the Committee shall make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein.

No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of Section 5 of this Plan shall be liable for anything done or omitted to be done by him, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his own willful misconduct or as expressly provided by statute.

6. ***Delegation of Authority:*** The Committee may delegate to the Chief Executive Officer and to other senior officers of the Company its duties under this Plan (including, but not limited to, its authority to select Participants) pursuant to such conditions or limitations as the Committee may establish.

7. ***Awards:*** The Committee shall determine the terms and conditions of Awards to be made under this Plan and shall designate from time to time the individuals who are to be the recipients of Awards. Awards may also be made in combination or in tandem with, in replacement of, or as alternative to, grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. An Award may provide for the grant or issuance of additional, replacement or alternative Awards upon the occurrence of specified events. All or part of an Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries and achievement of Performance Goals, such as specific individual and/or business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. Unless specified otherwise by the Committee, the amount payable pursuant to an Award shall be based on a percentage of the Participant's Compensation.

8. ***Payment of Awards:*** The Committee has sole and absolute authority and discretion to determine whether an Award shall be paid under this Plan and if so such payment will be made in accordance with the following:

(a) ***Form of Payment:*** Generally, payment of Awards shall be made in cash and may be subject to such restrictions as the Committee shall determine.

(b) ***Date of Payment:*** Except as provided in Section 4(a), payment of any Awards for a Plan Year ("Award Plan Year") shall be made as soon as practicable after the close of the Award Plan Year (as determined by the Committee), but in no event later than March 15th of the Plan Year immediately following the close of the Award Plan Year ("Payment Date").

9. ***Assignability:*** Unless otherwise determined by the Committee and provided in the Agreement, no Award or any other benefit under this Plan shall be assignable or otherwise transferable, except by will or the laws of descent and distribution. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 9 shall be null and void.

10. ***Tax Withholding:*** The Company shall have the right to withhold applicable taxes from any Award payment and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

11. ***Finality of Determinations:*** Any determination by the Committee in carrying out or administering this Plan shall be final and binding for all purposes and upon all interested persons and their heirs, successors, and personal representatives.

12. ***Employee Rights Under the Plan:*** No Employee or other person shall have any claim or right to be granted an Award under this Plan. Neither the Plan nor any action taken thereunder shall be construed as giving an Employee any right to be retained in the employ of the Company or an Employer. No Participant shall have any lien on any assets of the Company or an Employer by reason of any Award made under this Plan.

13. ***Amendment, Modification, Suspension or Termination:*** The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (i) no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to such Participant shall be made without the consent of such Participant and (ii) no amendment or alteration shall be effective prior to its approval by the stockholders of the Company; however clause (ii) shall only apply if, and to the extent, such approval is required by applicable legal requirements.

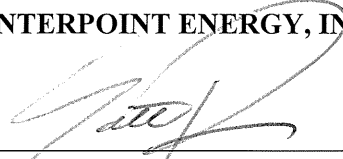
14. ***Governing Law:*** This Plan and all determinations made, and actions taken pursuant hereto, shall be governed by and construed in accordance with the laws of the State of Texas.

15. ***Exclusion from Section 409A:*** This Plan is intended to provide “short-term deferrals” as described in Treasury Regulation § 1.409A-1(b)(4) under Section 409A of the Code (or successor guidance thereto), and not to be a “nonqualified deferred compensation plan” for purposes of Section 409A of the Code. The Plan shall be administrated and interpreted consistent with that intent.

[Remainder of page intentionally blank. Signature page follows.]

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has executed these presents as evidenced by the signature of its duly authorized officer, which may be sufficiently evidenced by any such executed copy hereof, this 17th day of December, 2018, but effective as set forth above.

CENTERPOINT ENERGY, INC.

By: 

Scott M. Prochazka
President and Chief Executive Officer

ATTEST:



Vincent A. Mercaldi
Assistant Corporate Secretary



SHORT-TERM INCENTIVE (STI) PLAN

PERFORMANCE YEAR: 2019

STI RESULTS: IBEW 1393 AND STEELWORKERS 7441 & 12213

FEBRUARY 2020



SHORT-TERM INCENTIVE PLAN



- **What is the Short-Term Incentive (STI) Plan?**

- The CenterPoint Energy STI plan is an incentive reward program designed to pay for performance, align the workforce with shareholder interests and reward strong performance on key business metrics: financial, operational, customer satisfaction, and employee safety.

- **When will I receive payment?**

- The STI payment will be made by direct deposit. The deposit will post in the same manner and in the same accounts as each colleague's current bi-weekly direct deposit election. Colleagues can access their online paystub by following the same process used for accessing the bi-weekly paystub. STI payments are scheduled to be deposited on or about March 6, 2020.

SHORT-TERM INCENTIVE PLAN



- **How is my reward amount determined?**
 - IBEW 1393 and Steelworkers 7441 & 12213 award = (earnings for hours worked x financial goals payout achievement) + flat amounts for safety and customer satisfaction



2019 SHORT-TERM INCENTIVE PLAN GOALS

Goals	Threshold	Target	Maximum	Exceptional	Weight	Results	
						#	Achv
Financial/Operational Performance							
Overall Company Core Operating Income	\$ 1,136	\$ 1,209	\$ 1,257	\$ 1,306	35%	\$ 1,217	108%
Consolidated Diluted Earnings Per Share	\$ 1.53	\$ 1.65	\$ 1.71	\$ 1.77	20%	\$ 1.77	200%
Overall Company Operations and Maintenance Expenditures	\$ 1,666	\$ 1,602	\$ 1,537	\$ 1,473	20%	\$ 1,571	124%
Customer Satisfaction Composite							91%
CNP Customer Satisfaction Composite : (weight 75%)							
Customer Survey Gas Operations / Home Service Plus (weight 37.5%)	4.31	4.42	4.51			4.47	128%
Customer Survey Electric Operations (weight 15%)	3.89	3.99	4.07			3.96	85%
Power Alert Service Survey (PAS) Electric Operations (weight 15%)	4.43	4.54	4.63			4.47	68%
Customer Average Interruption Duration Index (CAIDI) CEHE (weight 7.5%)	99.56	97.07	94.58			120.89	0%
Vectren Customer Satisfaction Composite: (weight 25%)							
Perception Surveys (weight 12.5%)	73%	77%	81%			76.0%	88%
Contact Surveys (weight 12.5%)	81.1%	85.1%	89.1%			82.9%	72%
Overall Company Safety Performance							19%
CNP Safety Composite (weight 75%) ¹							
Employee Safety Participation Rate (ESPR) (weight 18.75%) ²	60%	66%	70%			60.0%	25%
Leadership Safety Participation Rate (LSPR) (weight 18.75%) ²	46%	51%	56%			56.0%	75%
Preventable Vehicle Incident Rate (PVIR) (weight 37.5%)	1.68	1.53	1.45			2.11	0%
Vectren Safety Composite (25%)							
Days Away, Restricted Time (weight 25%)	19	12	7			23	0%

¹ CNP DART achievement greater than 1.0 would have reduced CNP safety payout by 50%. CNP DART achievement was 0.90.

² Safety achievements were reduced by 50% for CNP's ESPR (from 50% to 25%) and LSPR (from 150% to 75%) due to a fatality



IBEW 1393, STEELWORKERS 7441 & 12213

- Financial results finished above target, while customer satisfaction and safety results finished below target.

Goals	Performance	Threshold	Target	Maximum	Payout
Financial Goals	136.91%	0.00%	2.50%	5.00%	3.4229%
Customer Satisfaction	90.89%	\$0.00	\$100.00	\$200.00	\$0.00
Safety	18.75%	\$150.00	\$250.00	\$350.00	\$150.00
Bonus Example: Earnings of \$60,000 x Financial Goals (0.034229)					\$2,053.74
Add: Customer Satisfaction (flat payment)					\$0.00
Add: Safety (flat payment)					\$150.00
TOTAL BONUS =					\$2,203.74

This calculation is designed for illustration purposes only. Your individual calculation may differ.



2019 SHORT-TERM INCENTIVE PLAN PERFORMANCE REVIEW

COMPENSATION COMMITTEE MEETING

FEBRUARY 18, 2020



2019 SHORT-TERM INCENTIVE PLAN GOALS AND ACHIEVEMENT



(\$ in millions except earnings per share)	Threshold (50%)	Target (100%)	Maximum (150%)	Exceptional (200%)	Weight	Results
Goals						
Financial Performance						
Overall Company Core Operating Income	Target less 6% \$ 1,136	Revised Plan ¹ \$ 1,209	Target plus 4% \$ 1,257	Target plus 8% \$ 1,306	35%	\$ 1,217 108%
Consolidated Diluted Earnings Per Share	Target less 7% \$ 1.53	Guidance Midpoint ² \$ 1.65	Target plus 3.5% \$ 1.71	Target plus 7% \$ 1.77	20%	\$ 1.77 200%
Operational Performance						
Overall Company Operations and Maintenance Expenditures	Target plus 4% \$ 1,666	Revised Plan less 1.5% ¹ \$ 1,602	Target less 4% \$ 1,537	Target less 8% \$ 1,473	20%	\$ 1,571 124%
Vectren Energy Efficiency and Equivalent Forced Outage Rate Composite					5%	128%
Energy Efficiency Indiana Gas (weight 40%)	Target less 15% 2,380	(Therms 000's) 2,800	Target plus 25% 3,500			3,159 126%
Energy Efficiency Ohio Gas (weight 20%)	Target less 15% 1,068	(Ccf 000's) 1,256	Target plus 25% 1,570			1,400 123%
Energy Efficiency Indiana Electric (weight 20%)	Target less 15% 32.0	(MwH 000's) 37.51	Target plus 25% 47.0			44.21 135%
Equivalent Forced Outage Rate (weight 20%)	Target Plus 2.5% 8.5%	6.0%	Target less 2.5% 3.5%			4.4% 132%
Customer Satisfaction Composite³	Details on following page				10%	91%
Safety Composite³	Details on following page				10%	19% ⁴

Overall Company Results 120%

¹ Combined Plan presented to the Board of Directors on February 20, 2019, including cost savings attributable to the Vectren merger

² Based on EPS guidance range of \$1.60 - \$1.70; Revised Plan reflects \$1.66 EPS on a guidance basis

³ Refer to next page for goals and results

⁴ Safety achievements were reduced by 50% for CNP's ESPR (from 50% to 25%) and LSPR (from 150% to 75%) due to a fatality

Note: Total payout cannot exceed 188%

In order for the Short-Term Incentive Plan to be funded, Core Operating Income must equal or exceed \$1,025 million

2019 SHORT-TERM INCENTIVE PLAN GOALS AND ACHIEVEMENT



Goals	Threshold (50%)	Target (100%)	Maximum (150%)	Exceptional (200%)	Weight	Results
Customer Satisfaction Composite					10%	91%
CNP Customer Satisfaction Composite (weight 75%)						
Customer Survey Gas Operations / Home Service Plus (weight 37.5%)	Target less 2.5% 4.31	Prior Year Actual 4.42	Target plus 2% 4.51			4.47 128%
Customer Survey Electric Operations (weight 15%)	Target less 2.5% 3.89	Prior Year Actual 3.99	Target plus 2% 4.07			3.96 85%
Power Alert Service Survey (PAS) Electric Operations (weight 15%)	Target less 2.5% 4.43	Prior Year Actual 4.54	Target plus 2% 4.63			4.47 68%
Customer Average Interruption Duration Index (CAIDI) Electric Operations (weight 7.5%)	Two Year Average 99.56	Threshold less 2.5% 97.07	Threshold less 5% 94.58			120.89 0%
Vectren Customer Satisfaction Composite (weight 25%)						
Perception Surveys (weight 12.5%)	Target less 4% 73%	Three Year Average 77%	Target plus 4% 81%			76% 88%
Contact Surveys (weight 12.5%)	Target less 4% 81.1%	Three Year Average 85.1%	Target plus 4% 89.1%			82.9% 72%
Safety Composite					10%	19%
CNP Safety Composite (weight 75%)¹						
Employee Safety Participation Rate (ESPR) (weight 18.75%)	Prior Year Actual 60%	Threshold plus 10% 66%	Threshold plus 17% 70%			60% 25% ²
Leadership Safety Participation Rate (LSPR) (weight 18.75%)	Prior Year Actual 46%	Threshold plus 10% 51%	Threshold plus 20% 56%			56% 75% ²
Preventable Vehicle Incident Rate (PVIR) (weight 37.5%)	Target plus 10% 1.68	Prior Year Actual 1.53	Target less 5% 1.45			2.11 0%
Vectren Safety Composite (weight 25%)						
Days Away, Restricted Time (weight 25%)	Target plus 7 19	(# of Cases) 12	Target less 5 7			23 0%

¹ CNP DART achievement greater than 1.0 would have reduced CNP safety payout by 50%. CNP DART achievement was 0.90.

² Safety achievements were reduced by 50% for CNP's ESPR (from 50% to 25%) and LSPR (from 150% to 75%) due to a fatality

November 2019

A dark blue rectangular box containing the text "2019 Top 250 Report" in white. A thin white vertical line is positioned to the left of the text.

2019 Top 250 Report

2019 TOP 250 REPORT

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EXECUTIVE SUMMARY

Many have observed a movement towards a “one size fits-all” executive compensation model among U.S. public companies since the introduction of Say-on-Pay voting in 2011, and the proliferation of prescribed voting-policy rules by proxy advisors and large investment funds that followed. It is now general practice to have “goal-driven” annual cash incentives combined with “balanced” long-term incentives that include varying portions of performance awards (usually shares but sometimes cash), restricted stock, and/or stock options.

Within this broad model, our research shows that large public companies continue to use long-term incentive grant types for competitive differentiation to support their business strategies. Performance awards are now granted more-or-less universally, comprising at least half the regular annual grant value to CEOs and other senior executives, while the remainder varies between restricted stock and stock options depending on the preference for low versus high performance risk and leverage in pay delivery, concern for retention versus reward, and other company strategy- and culture-related considerations.

Our 47th annual FW Cook Top 250 Report details the long-term incentive practices of the 250 largest companies in the Standard & Poor's (“S&P”) 500. Overall, year-over-year changes reflect stability and continuation of trends that started with Say-on-Pay.

Prevalence of Long-Term Incentive Grant Types



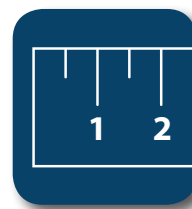
94% of Top 250 companies use performance awards, 65% use restricted shares, and stock option/SAR usage continues to decline

Long-Term Incentive Mix



58% of CEO long-term incentives delivered in Performance Awards (compared to 55% in 2018)

Long-Term Incentive Metrics



65% of companies with performance plans use TSR as a performance metric; 77% use relative TSR in combination with another metric. 54% of companies with performance plans use a profit metric and 40% use a capital efficiency metric

INTRODUCTION

Overview and Background

This report is FW Cook's 47th annual report on long-term incentives granted to executives at the 250 largest U.S. companies in the S&P 500 Index. It is intended to inform boards of directors and compensation professionals in designing and implementing effective long-term incentive programs that promote long-term success for their companies in supporting strategic objectives and aligning pay delivery with performance.

Survey Scope

The report covers the following topics:

- Executive long-term incentive grant types, usage by industry, and number of grant types employed.
- Grant type design features, including vesting schedules, and stock option term.
- Key performance plan characteristics, including performance periods, payout maximums, performance metrics, and measurement approaches.
- CEO long-term incentive grant value mix.

Top 250 Selection

The Top 250 companies, limited to those granting long-term incentives, are selected annually based on market capitalization (share price multiplied by total common shares outstanding as of March 31, 2019). Refer to the *Appendix* for a list of companies included.

Volatility in the equity markets, corporate transactions, and the ebb and flow of corporate fortunes result in changes in market capitalization and, therefore, turnover in the survey sample. As such, 26 companies (approximately 10%) are new to this year's report. Thus, trend data are influenced not only by actual changes in grant practices among continuing participants, but also by changes in the sample.

INTRODUCTION

The following table profiles the industry sectors represented in the Top 250 for 2019, defined by S&P Dow Jones and Morgan Stanley Capital International (MSCI)'s Global Industrial Classification System (GICS).

Industry Sector ⁽¹⁾ (\$Bil) (# of companies)	Percent of 2019 Top 250	Median Market Data				
		(FYE) Net Sales	(6/30/2019) Market Cap.	Beta ⁽²⁾ 5-Yr. Average	TSR ⁽³⁾	
					1-Year	5-Yr. CAGR ⁽⁴⁾
Information Technology (38)	15%	\$12.50	\$41.89	1.16	21%	23%
Industrials (35)	14%	\$22.83	\$42.78	1.18	14%	18%
Health Care (34)	14%	\$22.34	\$62.88	0.90	15%	11%
Financials (33)	13%	\$16.40	\$46.34	1.14	9%	7%
Consumer Discretionary (24)	10%	\$19.95	\$35.53	0.99	17%	17%
Consumer Staples (24)	10%	\$22.78	\$41.71	0.63	10%	15%
Utilities (16)	6%	\$12.50	\$29.46	0.26	11%	23%
Energy (15)	6%	\$24.00	\$37.03	1.17	-4%	-18%
Real Estate (14)	6%	\$2.95	\$28.19	0.47	13%	24%
Communication Services (10)	4%	\$49.74	\$176.25	0.97	12%	11%
Materials (7)	3%	\$14.67	\$42.08	0.88	15%	14%
Total Top 250 - Median	—	\$15.50	\$42.51	1.03	13%	14%

Source: S&P Capital IQ (net sales represents 10-k results; all other data measured as of June 30, 2019)

(1) Reflect GICS structure revised Sept. 2018; the following GICS changes may limit year-over-year comparability:

- (i) Discontinued the Internet Software / Services Industry and Sub-Industry
- (ii) Created a new Sub-Industry under the IT Services Industry called Internet Services / Infrastructure
- (iii) Renamed the Telecommunication Services Sector the Communication Services Sector
- (iv) Moved Media companies from Consumer Discretionary to Communication Services
- (v) Moved Internet Service companies from Information Technology to Communication Services
- (vi) Moved E-commerce companies from Information Technology to Consumer Discretionary
- (vii) Moved the Media Industry Group from Consumer Discretionary to Communication Services Sector and renamed Media / Entertainment

(2) Beta is a measure of the volatility of a security in comparison to the market as a whole; a higher beta means more volatility

(3) TSR = Total Shareholder Return, a measure of stock price and dividend performance

(4) CAGR = Compounded Annual Growth Rate

INTRODUCTION

Source of Data

All information was obtained from public documents filed with the Securities and Exchange Commission (SEC), including proxy statements, 10-K and 8-K filings.

Definition of Usage

This report presents the most recently disclosed long-term incentive grant types in use at the Top 250 companies. A grant type is considered used at a company if grants were made in the current or prior year and there is no evidence the grant practice has been discontinued, or if the company indicates the grant type will be awarded in the future.

Definition of Long-Term Incentive

To be considered a long-term incentive for purposes of this report a grant must reward performance and/or continued service for a period of one year or more and cannot be limited by both scope and frequency:

- A grant with limited scope is awarded to only one executive or a very small or select group of executives.
- A grant with limited frequency is an award that is not part of a company's regular grant practice. For example, a grant made as a hiring incentive, replacement of compensation forfeited from prior employer or promotional award is not considered in this report.
- A grant with limited scope but without limited frequency (annual grants of performance shares made only to the CEO) may be considered a long-term incentive, and vice versa (one-time grants made to all executives).

Additional References

References to shareholder views were developed from a review of proxy-voting guidelines published by large institutional investors.

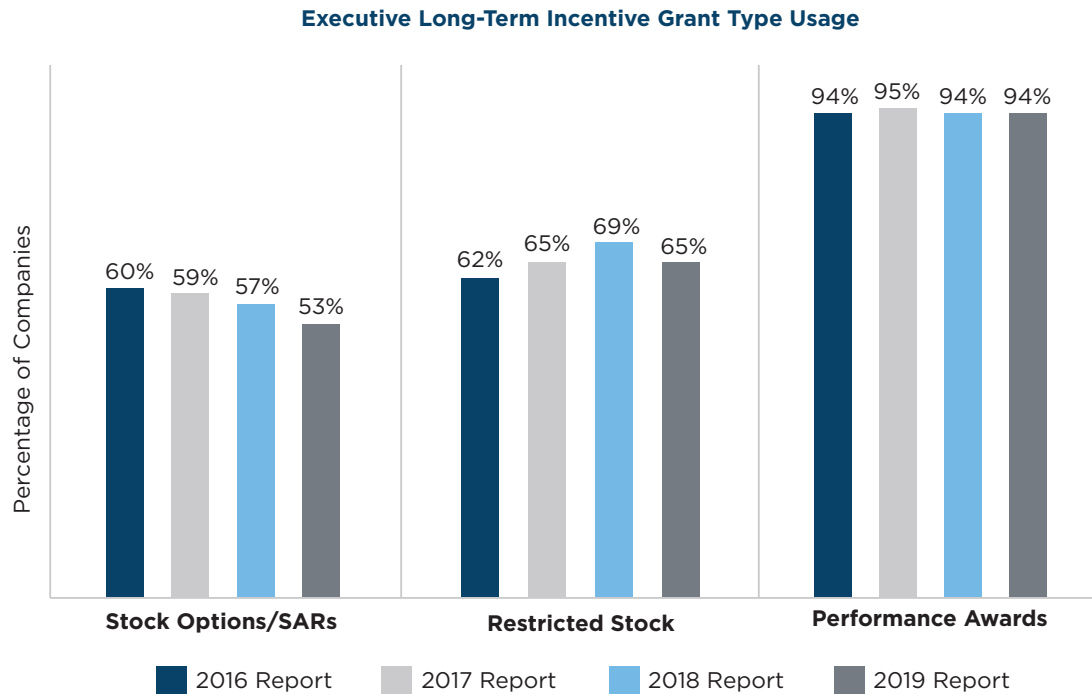
References to proxy advisor views were developed from company-specific Say-on-Pay voting recommendations during the 2019 proxy season, direct conversations with Institutional Shareholder Services (ISS) and Glass Lewis, and/or a review of their proxy-voting guidelines.

General Note

Percentages presented in the charts may not always add up to 100% due to rounding.

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

Summary of Grant Types in Use



Stock Options/Stock Appreciation Rights (SARs) are derivative securities, where stock price must appreciate for them to deliver value. Stock options are rights to purchase company stock at a specified exercise price over a stated term; SARs are rights to receive the increase between the grant price and the market price of a share of stock at exercise.

Once considered the most shareholder-friendly vehicle due to inherent alignment with stock price returns, stock options/SARs continue to decrease in prevalence. As compensation risk has become a focal point for regulators and financial institutions, stock options/SARs have been viewed less favorably due to their asymmetric risk profile (i.e., upside gain, with only opportunity cost at risk if the share price does not increase). Other factors influencing the decline of stock option/SAR use likely include potential accounting inefficiencies and views of the proxy advisory firms and certain institutional investors that time-vesting stock options are not performance-based because “all boats rise with the tide.”

Restricted Stock includes actual shares or share units that are earned for continued employment. Since 2013, restricted stock prevalence has hovered in the low-to-mid 60% range, with prevalence trending upward between 2015 and 2018. While 2019 restricted stock prevalence decreased 4%, FW Cook partially attributes the decrease to a change in sample rather than the beginning of a trend towards decreased use of restricted stock.

Performance Awards consist of stock-denominated shares or share units (performance shares) and grants of cash or dollar-denominated units (performance units) earned based on performance against predetermined objectives over a defined period of more than one year. Since 2010, performance awards have been the most widely granted award type with prevalence of 94% in 2019 and 2018. The proliferation of this award type is partially attributable to the implementation of Say-on-Pay and companies' desire to directly align pay and performance.

Of the companies granting performance awards, 89% denominate the awards in stock, 4% in cash, and the remaining 7% use a combination of both.

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

Grant Type Usage by Industry

Grant type usage is further examined by industry sector, where observations include:

- Performance award prevalence is nearly universal regardless of industry classification, with at least 80% of companies in each sector granting some type of performance-based award vehicle.
- Industry-specific option usage varies yearly, but stock options/SARs prevalence is generally higher within the Health Care, Industrials and Materials sectors.
- Conversely, the Real Estate, Utilities and Energy sectors perennially rank among the lowest in usage of stock options/SARs and among the highest as restricted stock granters. This “awards bias” is due to industry-specific fact patterns (e.g., high dividends within the Real Estate sector).

Industry Sector (# of companies)	Stock Options/SARs	Grant Type by Industry Restricted Stock	Performance Awards
Information Technology (38)	50%	79%	87%
Industrials (35)	71%	60%	97%
Health Care (34)	76%	56%	94%
Financials (33)	36%	67%	100%
Consumer Discretionary (24)	54%	63%	92%
Consumer Staples (24)	75%	58%	92%
Utilities (16)	19%	75%	100%
Energy (15)	40%	93%	93%
Real Estate (14)	14%	64%	93%
Communication Services (10)	40%	50%	80%
Materials (7)	71%	29%	86%
Total Top 250	53%	65%	94%

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

Number of Long-Term Incentive Grant Types in Use

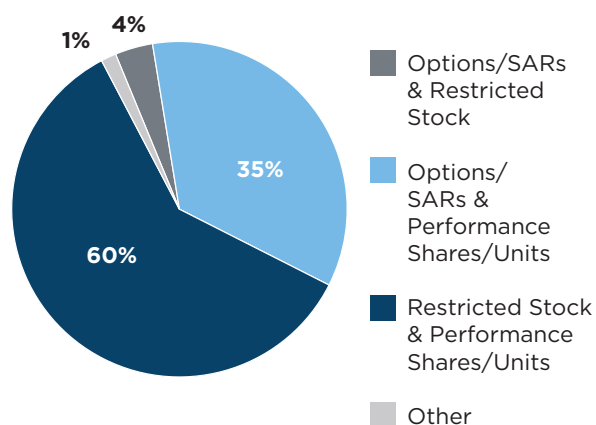
Most companies (86%) employ a “portfolio approach” that combines multiple grant types to balance the objectives of rewarding stock price appreciation, promoting longer-term financial and/or strategic performance and retaining executives.

In 2019, the portion of Top 250 companies using one grant type increased from 10% to 14%. Approximately one in seven companies now grants only a single equity vehicle. Among companies employing a single equity type, 66% use performance-based awards, 20% use stock options/SARs and 14% use restricted stock.

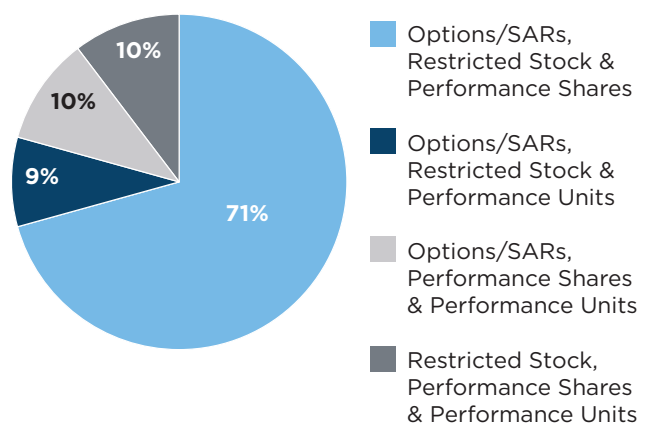
Number of Grant Types	Percent of Companies Using			
	2016 Report	2017 Report	2018 Report	2019 Report
1 Type	12%	12%	10%	14%
2 Types	55%	51%	54%	54%
3 Types	32%	36%	35%	31%
4 Types	1%	1%	1%	1%

Among companies using two grant types, the most common approach is to grant a mix of time-vesting and performance-vesting awards (95% prevalence). Companies favor complementing performance-based awards with time-based restricted stock over stock options/SARs as restricted stock has a potentially stronger retentive value. Among companies using three grant types, most (80%) use a mix of stock options/SARs, restricted stock, and one type of performance award. The remainder grant both performance shares and performance units, along with either stock options/SARs or restricted stock (split evenly at 10% prevalence).

Vehicle Mix Among Companies Using 2 Vehicles



Vehicle Mix Among Companies Using 3 Vehicles



EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

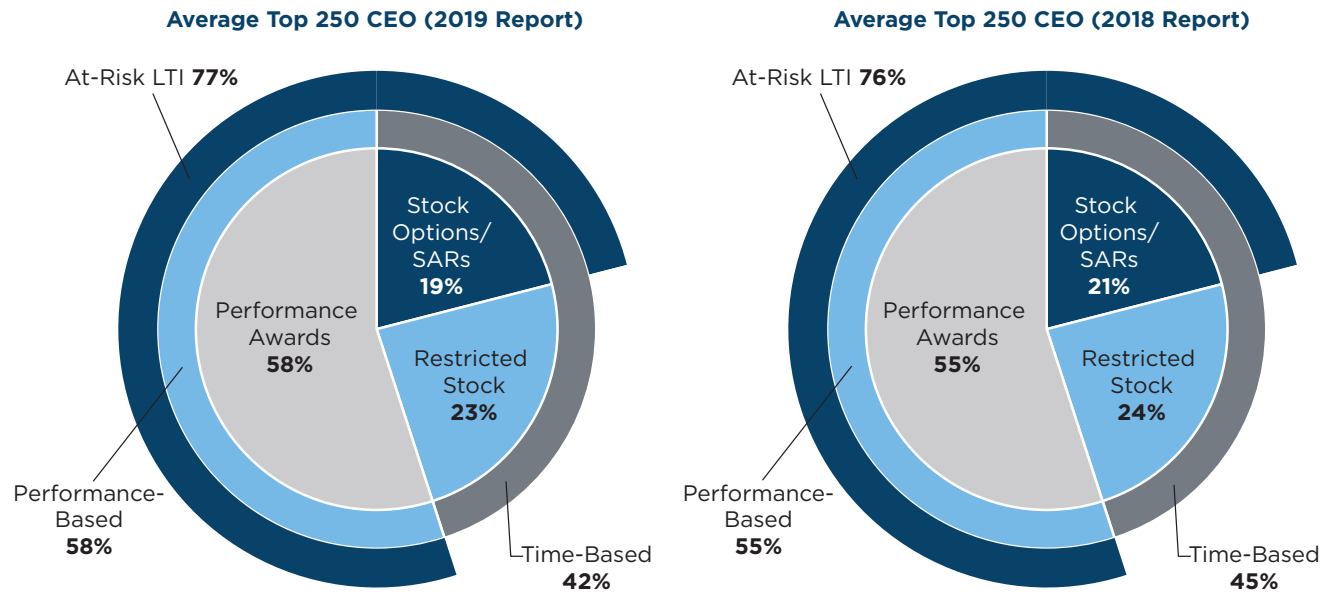
At least 70% of companies in every industry sector use either two or more grant types.

Industry Sector (# of companies)	Grant Types by Sector			
	1 Type	2 Types	3 Types	4 Types
Information Technology (38)	13%	58%	29%	0%
Industrials (35)	11%	37%	49%	3%
Health Care (34)	12%	44%	44%	0%
Financials (33)	12%	67%	21%	0%
Consumer Discretionary (24)	17%	50%	33%	0%
Consumer Staples (24)	4%	54%	38%	4%
Utilities (16)	19%	69%	13%	0%
Energy (15)	13%	47%	40%	0%
Real Estate (14)	29%	71%	0%	0%
Communication Services (10)	30%	70%	0%	0%
Materials (7)	14%	71%	14%	0%

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

Long-Term Incentive Mix

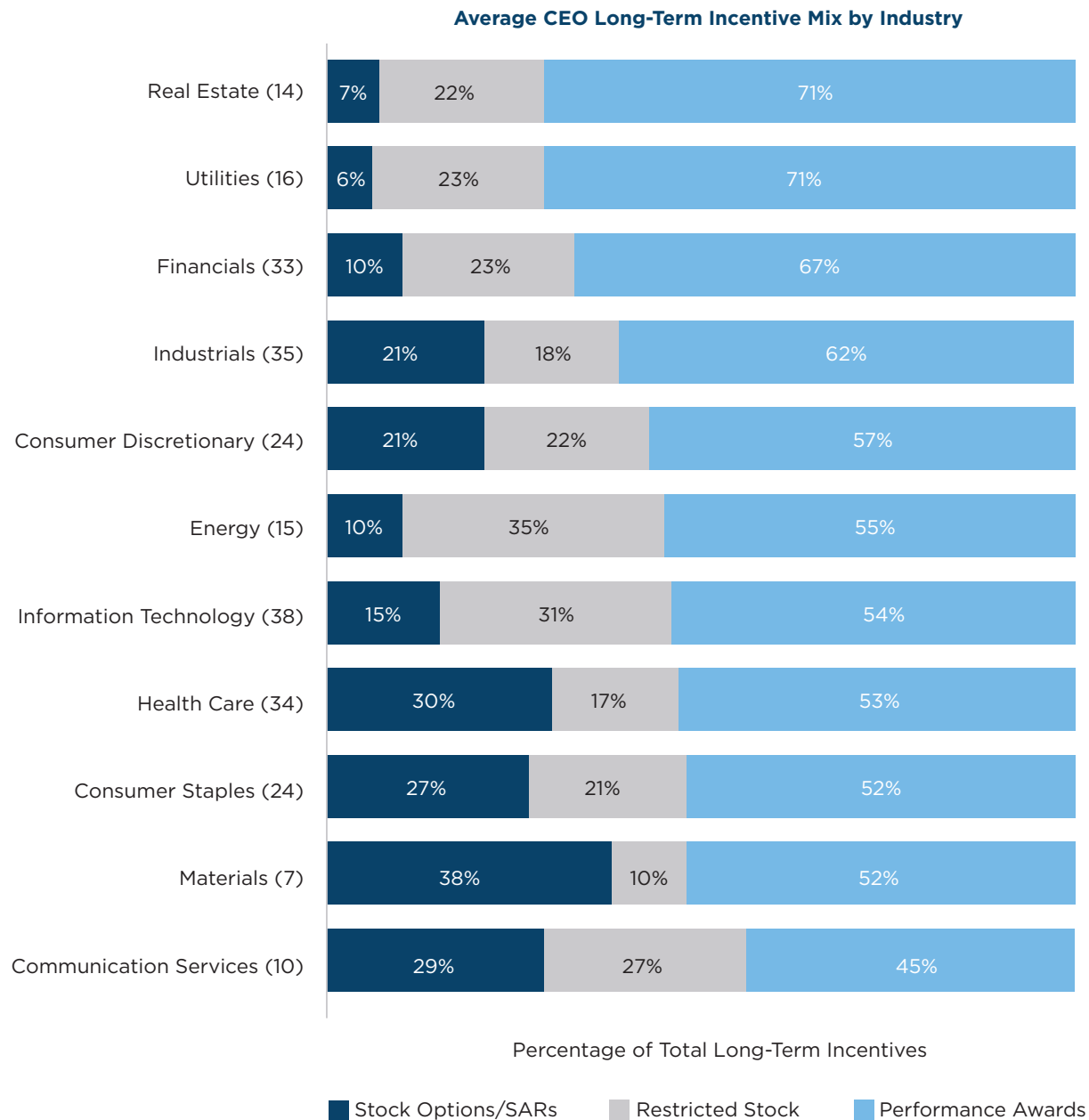
LTI mix continues to creep towards performance-based awards. On average, performance awards account for 58% of a Top 250 CEO's total long-term incentive value, an increase of 3% from 2018. Restricted stock represents 23% of the mix and stock options/SARs make up the remaining 19%. The influence of proxy advisors and some shareholders who do not view stock options as "performance-based" is evidenced by the continued decline of stock options' weighting in CEOs' total equity.



ISS does not endorse a specific grant mix but indicates a general preference for performance awards. While not a formal policy, ISS is critical of CEO long-term incentive mix not weighted at least 50% in performance awards, as well as a reduction in the weighting of performance awards. CEO performance-based LTI is also a factor evaluated in ISS' Equity Plan Scorecard model, where a low weighting generally results in a lower maximum authorizable share reserve.

EXECUTIVE LONG-TERM INCENTIVE GRANT TYPES AND USAGE

The table below illustrates the average CEO long-term incentive mix by industry sector with the industry sectors sorted by prevalence of performance awards.



OTHER LONG-TERM INCENTIVE PRACTICES

Stock Option/SAR Full Term and Expected Term

The full term of a stock option/SAR is the period between the grant date and the regular expiration, when not impacted by employment termination, M&A, etc. Typically measured in years, the most common term is ten years, though 14% of companies report a shorter term. This practice is consistent across all industry sectors.

Option/SAR Full Term	2017 Report	Percent of Companies Using 2018 Report	2019 Report
10 years	87%	87%	86%
9 years	0%	0%	0%
8 years	2%	2%	1%
7 years	9%	10%	11%
6 years	2%	1%	1%
5 years	0%	0%	1%

The Financial Accounting Standards Board (FASB) requires companies to account for employee stock options based on their expected term, as opposed to the full term, under Accounting Standards Codification (ASC) 718. The expected term of a stock option grant is the duration an option is expected to be outstanding before it is exercised.

The expected exercise term for companies granting stock options/SARs ranges anywhere from 3 to 7 years.

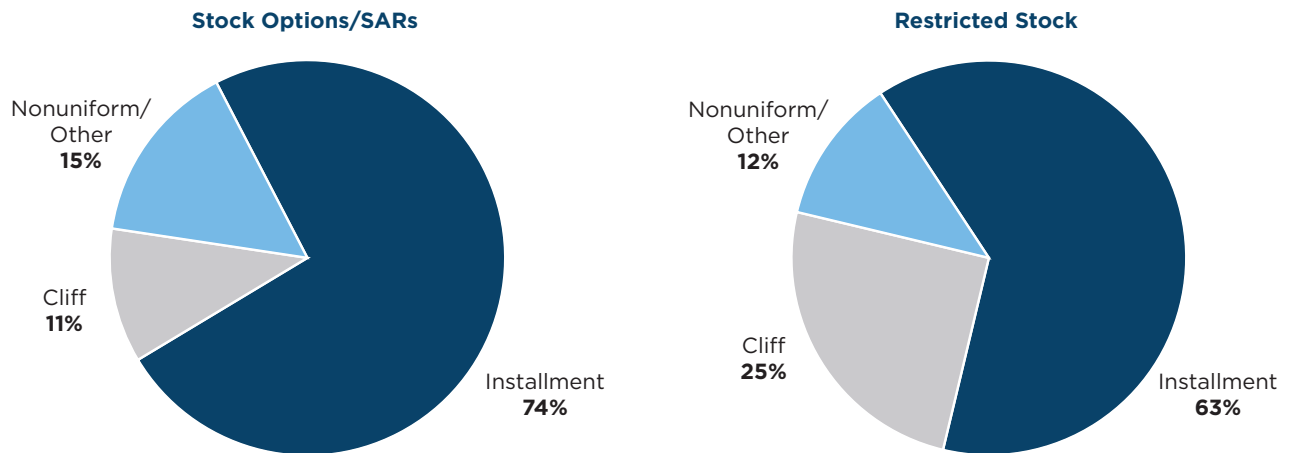
Expected Term	# of Companies	Percent of Companies Using 2019 Report
Greater Than 8 Years	3	2%
7 - 8 Years	13	10%
6 - 7 Years	33	25%
5 - 6 Years	45	34%
3 - 5 Years	35	26%
Not Disclosed	4	3%

Most stock option awards have an expected term equal to approximately 55% to 65% of the contractual term.

OTHER LONG-TERM INCENTIVE PRACTICES

Vesting Schedules

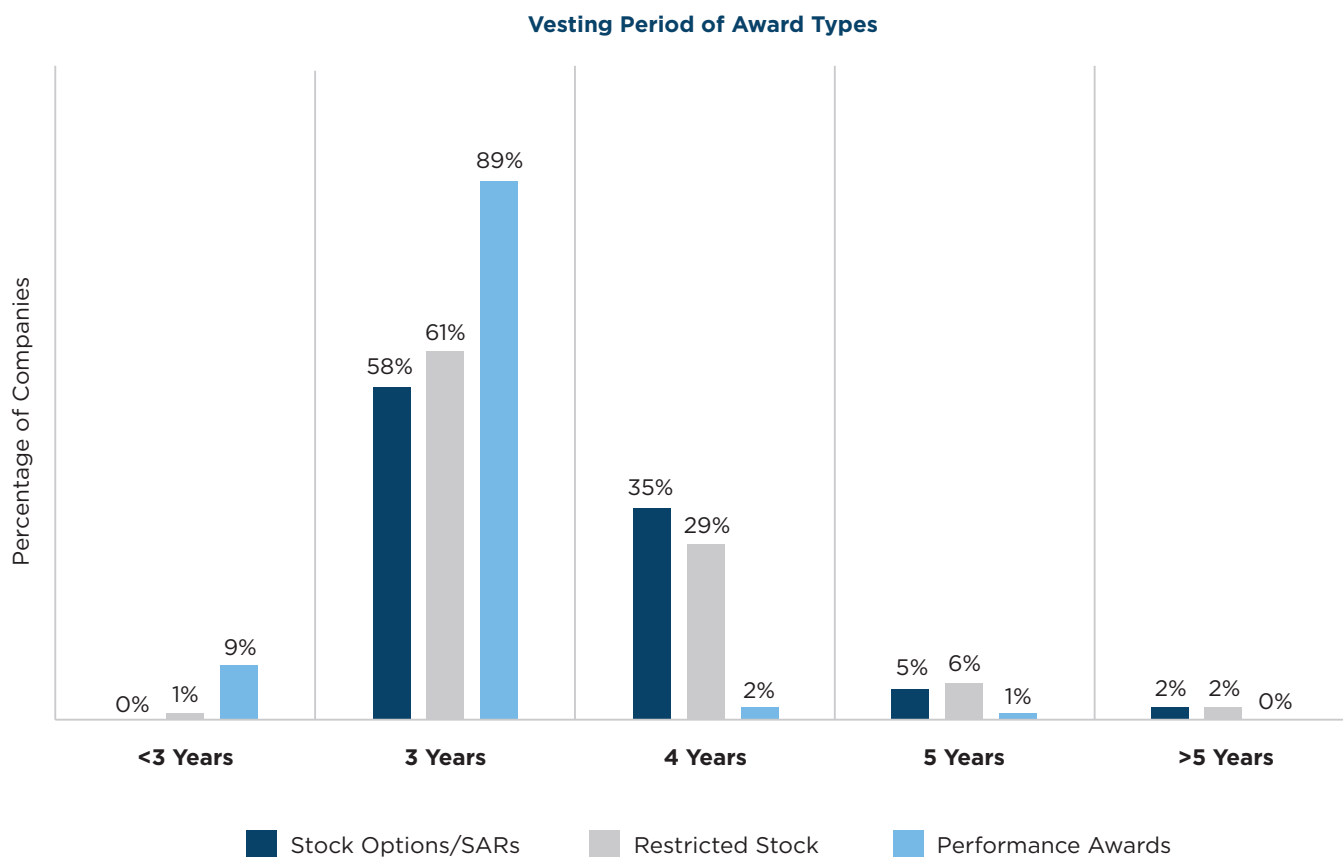
Type of Vesting Fundamentally, there are two approaches to vesting long-term incentives: “installment” (ratable vesting over a given period), or “cliff” (full vesting at the end of the period). Most Top 250 companies use the installment approach for both stock options/SARs (74%) and restricted stock (63%). Restricted stock has been gravitating towards installment vesting and away from cliff vesting. This is likely attributable to the increasing prevalence and weight of performance awards that generally cliff vest, and to the replacement of stock options (which typically vest in installments) with restricted stock.



OTHER LONG-TERM INCENTIVE PRACTICES

Vesting Period The most common vesting period for all long-term incentive award types is three years. Vesting periods shorter than three years are rare in regular grants, as are periods longer than five years. Time-based awards with short vesting periods provide less “retention glue,” which is the intent behind such awards.

ISS does not prescribe a minimum vesting period, but it is a consideration in the ISS QualityScore governance model and Equity Plan Scorecard. Similarly, Glass Lewis does not indicate a preferred minimum vesting period, although its policies suggest that equity grants should be subject to minimum vesting and/or holding periods sufficient to ensure sustainable performance and promote retention.



OTHER LONG-TERM INCENTIVE PRACTICES

Performance Metrics

TSR and profit-based measures continue to be the most common categories of long-term performance metrics used by 65% and 54% of companies, respectively. Since demonstrating alignment between pay and performance is a common predictor for securing Say-on-Pay support, companies continue to evaluate how to measure performance and set goals (absolute goals measured against internal targets versus relative goals measured against external benchmarks).

TSR, specifically relative TSR, emerged as the metric of choice under Say-on-Pay and has remained the most prevalent metric since our 2013 study. For shareholders, there is an elegance to TSR in that it demonstrates the return relative to alternative investments. It is also the predominant definition of corporate performance used by ISS, as well as the sole performance metric required by the SEC under its proposed rules for pay and performance disclosure under Dodd-Frank. As such, some companies view relative TSR as a way to satisfy shareholder, proxy advisor and SEC preferences. Further, relative TSR can serve as a manageable solution to challenges with setting multi-year financial/operating goals, particularly in uncertain economic environments.

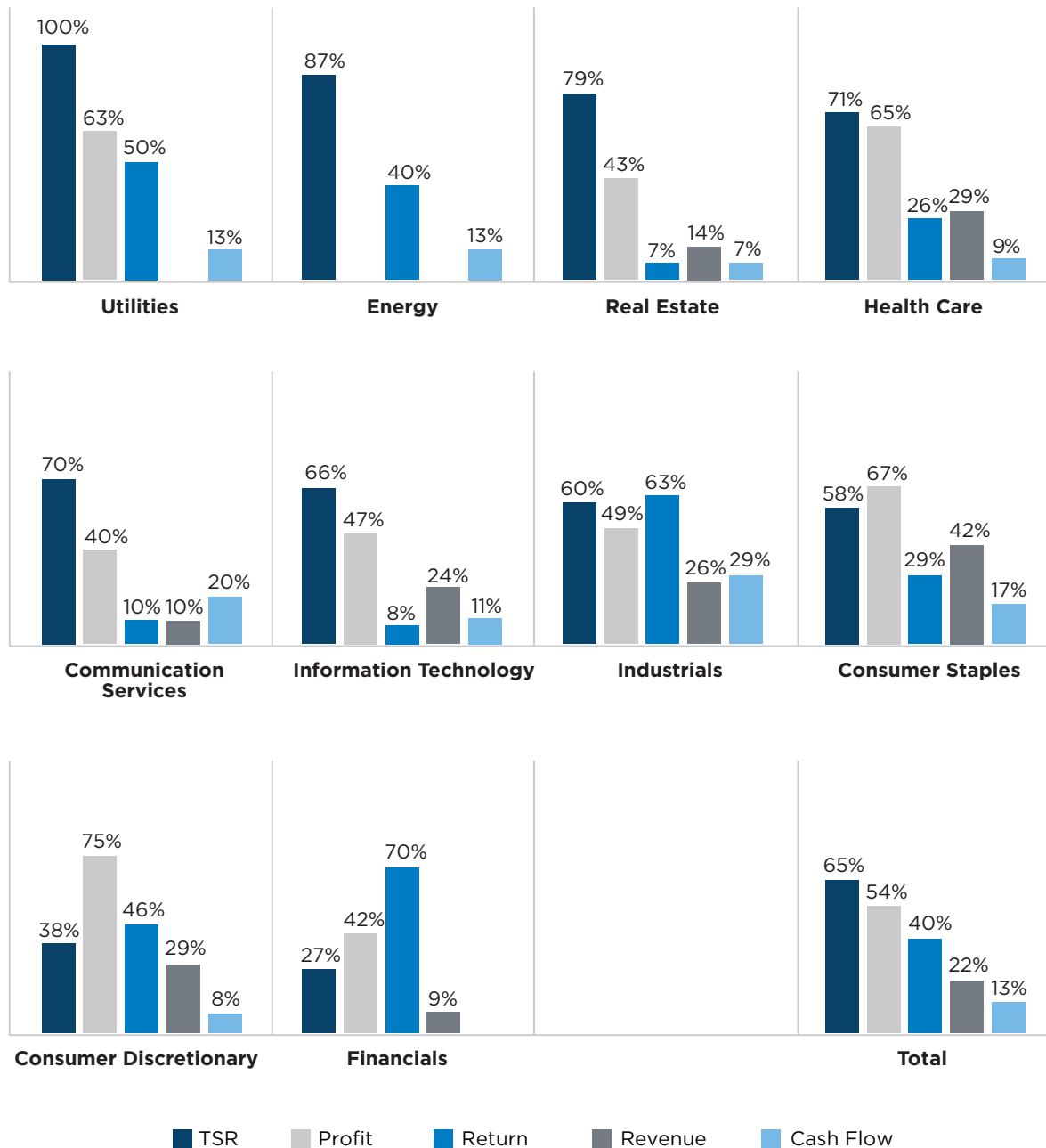
Critics of TSR as an incentive measure believe that it does not drive performance, that market valuation can become disconnected from financial/operating performance, and that consistently high-performing companies may be disadvantaged when compared against poor performers that rebound during the measurement period. Perhaps due to the potential drawbacks of using TSR, 77% of the Top 250 companies using TSR do so in combination with one or more additional metrics (flat from 78% in 2018).

Performance Measure Categories							
Category	Performance Measures	Percent of Companies with Performance Awards Using			Performance Measurement Approach 2019 Report		
		2017	2018	2019	Absolute	Relative	Both
<i>Total Shareholder Return</i>	Stock Price Appreciation Plus Dividends	60%	62%	65%	2%	91%	7%
<i>Profit</i>	EPS, Net Income EBIT, EBITDA Operating/Pretax Profit	49%	52%	54%	89%	10%	1%
<i>Capital Efficiency</i>	Return on Equity Return on Assets Return on Capital	42%	43%	40%	77%	14%	10%
<i>Revenue</i>	Revenue Organic Revenue	19%	20%	22%	88%	12%	0%
<i>Cash Flow</i>	Cash Flow Operating Cash Flow Free Cash Flow	14%	16%	13%	100%	0%	0%
<i>Other</i>	Safety, Quality Assurance New Business Individual Performance	16%	15%	14%	N/A	N/A	N/A

OTHER LONG-TERM INCENTIVE PRACTICES

Long-term incentive plans used in the Utilities, Real Estate, Health Care, Communication Services and Information Technology sectors tend to favor TSR followed by profit measures. Conversely, TSR is relatively uncommon among the Financials sector companies. Instead, the Financials sector relies more heavily on capital efficiency measures (70%), as successful performance in that sector is often viewed as a product of deploying capital efficiently to generate returns.

Performance Metric Prevalence by Industry Sector



Note: Excludes detail from the Materials sector (sample is fewer than 10 companies)

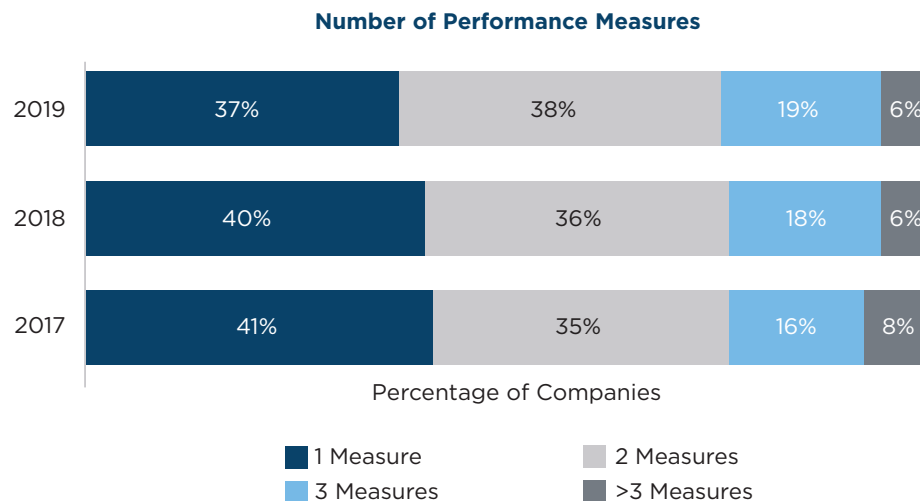
OTHER LONG-TERM INCENTIVE PRACTICES

Measurement Approach There are two basic approaches for measuring performance achievement: the first measures performance relative to pre-established internal (absolute) goals, while the second measures performance against external benchmark (relative). The relative approach is not readily applicable to most performance metrics, as companies often use a variety of different non-GAAP definitions and measures. TSR is the only performance metric category where more than 14% of companies in the Top 250 use the relative approach. Of the companies using relative TSR, 55% measure performance against an index, 26% relative to their compensation peer group, and 16% relative to a custom ("performance") peer group. Market-based metrics, such as TSR, tend to be easier to compare across external benchmarks due to readily available information and consistent definitions. Relative TSR is a versatile metric that can be employed effectively as either a standalone measure or as a modifier of performance results. Modifiers (both additive and multiplicative) account for 25% of the relative TSR measures reflected throughout the Top 250; the other 75% use relative TSR as a weighted metric to determine earnout.

The selection of the external comparison group used to benchmark relative TSR (i.e., compensation, custom, broad industry or index) is a key consideration in developing relative performance goals. Proxy advisors, as well as some investment funds, question the appropriateness of comparisons against broad market indices when a company has several industry competitors with similar operating characteristics, but there is an increasing realization that small peer groups magnify the volatility of relative TSR measures.

Proxy advisors advocate for the use of measuring performance on a relative basis. In fact, relative measurement of pay and TSR performance has been the cornerstone of ISS' CEO Pay-for-Performance Test, and Glass Lewis routinely criticizes the sole use of absolute performance metrics as they may reflect economic factors or industry-wide trends beyond the control of executives. ISS and Glass Lewis both view the use of a relative metric as "best practice" in LTI design but they are agnostic to whether the relative metric is TSR or a financial metric.

Number of Measures The majority of Top 250 companies use two or more performance measures (63%), 37% of companies use a single measure, which for the first time in our study, no longer represents the most-prevalent practice.



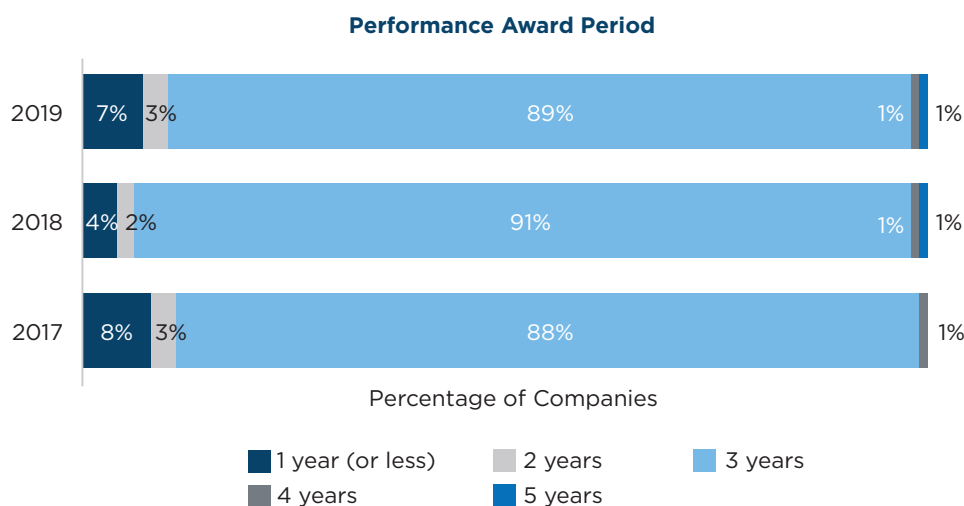
Glass Lewis discourages the use of a single performance measure, even if that metric is relative TSR. Glass Lewis argues that the use of multiple metrics provides a more complete picture of company performance and that a single metric may cause management to focus too much on a narrow range of performance. The risk of putting "all eggs in one basket" and the potential to overemphasize one metric at the expense of other business priorities are concerns shared by some shareholders.

OTHER LONG-TERM INCENTIVE PRACTICES

Performance Measurement Period

Three-year financial goals are set to measure performance in 89% of performance award plans. In contrast, 7% of companies set financial goals annually and average three years of results to avoid the complexity and imprecision of multi-year goal setting; it is important to note that proxy advisors criticize this approach for failing to promote sustained long-term performance as it operates more like an annual incentive plan.

A three-year performance period balances the inherent challenge in setting long-term performance goals with best practice and external expectations of using multi-year performance periods. Many companies argue that it is challenging to set realistic long-term performance goals due to market volatility and uncertainty. Some shareholders dispute this argument, particularly when a company's peers demonstrate the ability to set cumulative three-year goals and shareholders themselves make investments based on company guidance regarding long-term performance expectations.



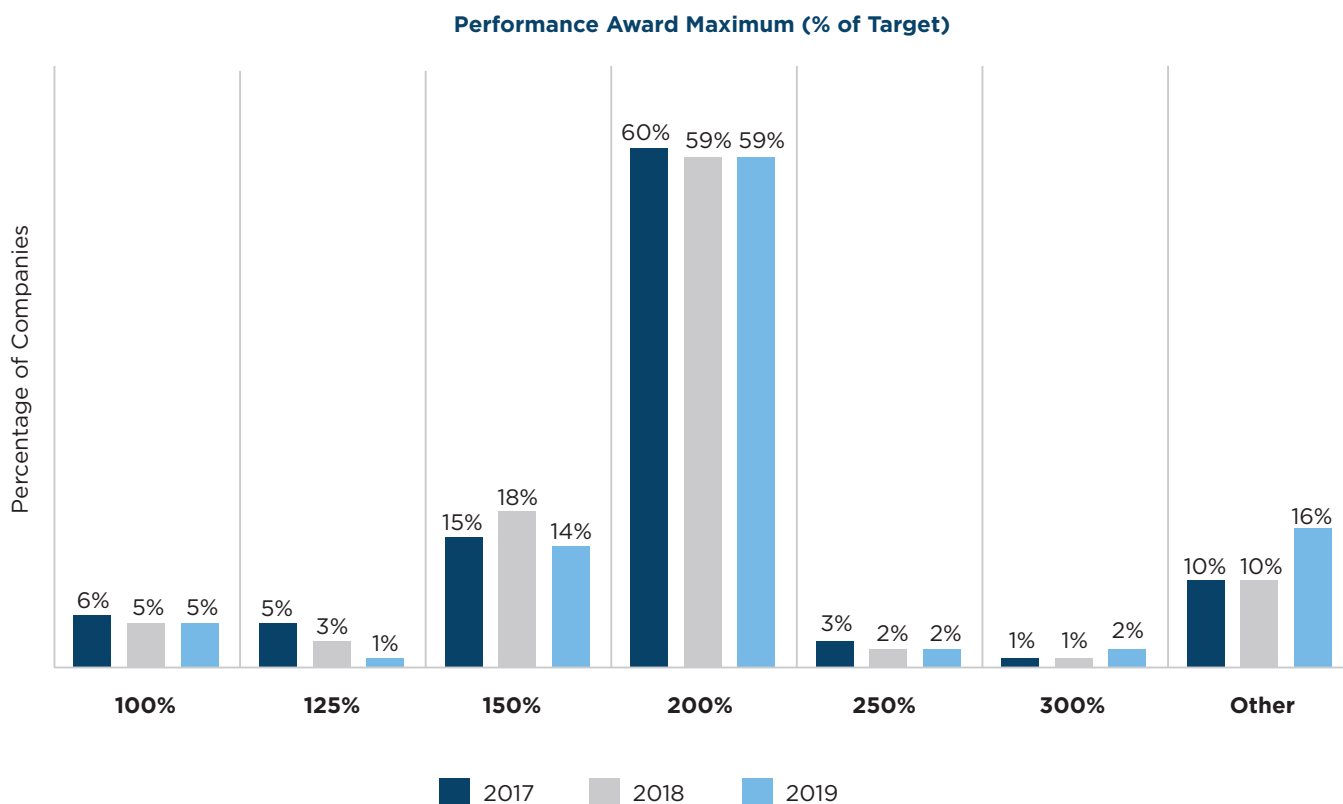
OTHER LONG-TERM INCENTIVE PRACTICES

Performance Award Maximum Payout Opportunity

The most prevalent maximum payout opportunity for performance awards is 200% of target, used by 59% of the Top 250 companies. The second most prevalent maximum payout leverage is 150% of target, which is employed by 14% of the companies granting performance awards.

Our research reveals that the distribution of performance leverage varies by industry sector, where we observed:

- A maximum payout opportunity of 200% of target is the most common among all the industry sectors, except the Financials sector where 150% prevails.
- Fifty-four percent of Financials sector companies reported a maximum payout opportunity of 150% or lower, two reported maximum opportunities of 165% and 175%, and the remaining 30% reported a maximum of 200% or higher (only one company "higher"). The high prevalence of a lower maximum reflects practices among large banks and is used to mitigate compensation risk, as prescribed by the Federal Reserve and other regulatory bodies.
- The Energy sector represents the opposite end of the spectrum. Seventy-nine percent of companies reported a 200% maximum opportunity, while the remaining 21% reported maximum opportunities of either 250% or 300%.



APPENDIX - COMPANIES IN THE 2019 TOP 250

Communication Services (10 Companies)

AT&T Inc.
Charter Communications, Inc.
Comcast Corp.
Electronic Arts Inc.

Facebook, Inc.
Fox, Corp.
Netflix, Inc.

The Walt Disney Company
Twitter, Inc.*
Verizon Communications Inc.

Consumer Discretionary (24 Companies)

AutoZone, Inc.*
Best Buy Co., Inc.
Booking Holdings Inc.
Carnival Corp.
Chipotle Mexican Grill, Inc.*
Dollar General Corp.
Dollar Tree, Inc.
eBay Inc.

Ford Motor Co.
General Motors Co.
Hilton Worldwide Holdings Inc.
Lowe's Companies Inc.
Marriott International Inc.
McDonald's Corp.
NIKE, Inc.
O'Reilly Automotive Inc.

Ross Stores Inc.
Royal Caribbean Cruises Ltd.
Starbucks Corp.
Target Corp.
The Home Depot Inc.
The TJX Companies Inc.
Ulta Beauty*
V.F. Corp.

Consumer Staples (24 Companies)

Altria Group Inc.
Archer-Daniels-Midland Co.
Brown-Forman Corp.
Colgate-Palmolive Co.
Constellation Brands Inc.
Costco Wholesale Corp.
General Mills Inc.
Hormel Foods Corp.

Kellogg Co.
Kimberly-Clark Corp.
Mondelez International Inc.
Monster Beverage Corp.
Pepsico Inc.
Philip Morris International Inc.
Sysco Corp.
The Clorox Co.*

The Coca-Cola Co.
The Estée Lauder Companies Inc.
The Hershey Co.
The Kroger Co.
The Procter & Gamble Co.
Tyson Foods Inc.
Walgreens Boots Alliance Inc.
Wal-Mart Stores Inc.

Energy (15 Companies)

Anadarko Petroleum Corp.
Chevron Corp.
Concho Resources Inc.
ConocoPhillips
EOG Resources Inc.

Exxon Mobil Corp.
Halliburton Co.
Marathon Petroleum Corp.
Occidental Petroleum Corp.
ONEOK, Inc.

Phillips 66
Pioneer Natural Resources Co.
Schlumberger Ltd.
The Williams Companies Inc.
Valero Energy Corp.

(*Denotes new company in 2019 Top 250)

APPENDIX - COMPANIES IN THE 2019 TOP 250

Financials (33 Companies)

Aflac Incorporated	Intercontinental Exchange, Inc.	SunTrust Banks, Inc.
American Express Company	JPMorgan Chase & Co.	Synchrony Financial
American International Group, Inc.	M&T Bank Corp	T. Rowe Price Group, Inc.
Bank of America Corporation	Marsh & McLennan Co.	The Allstate Corporation
BB&T Corporation	MetLife, Inc.	The Bank of New York Mellon Corp.
BlackRock, Inc.	Moody's Corporation	The Charles Schwab Corporation
Capital One Financial Corporation	Morgan Stanley	The Goldman Sachs Group, Inc.
Citigroup Inc.	Northern Trust Corporation	The PNC Financial Services Group
CME Group Inc.	Prudential Financial, Inc.	The Progressive Corporation
Discover Financial Services	S&P Global Inc.	The Travelers Companies, Inc.
Fifth Third Bancorp	State Street Corporation	U.S. Bancorp

Healthcare (34 Companies)

Abbott Laboratories	Celgene Corp.	Intuitive Surgical Inc.
AbbVie Inc.	Centene Corp*	IQVIA Holdings Inc.
Agilent Technologies, Inc.	Cigna Corp.	Johnson & Johnson
Alexion Pharmaceuticals Inc.	CVS Health Corp.	McKesson Corp.
Align Technology, Inc.	Danaher Corp.	Merck & Co. Inc.
Amgen Inc.	Edwards Lifesciences Corp.	Pfizer Inc.
Anthem Inc.	Eli Lilly and Co.	Regeneron Pharmaceuticals Inc.
Baxter International Inc.	Gilead Sciences Inc.	Stryker Corp.
Becton, Dickinson and Co.	HCA Holdings Inc.	Thermo Fisher Scientific Inc.
Biogen Inc.	Humana Inc	UnitedHealth Group Inc.
Boston Scientific Corp.	Illumina Inc.	Vertex Pharmaceuticals Inc.
Bristol-Myers Squibb Co.		

Industrials (35 Companies)

3M Company	General Electric Company	Roper Technologies, Inc.
AMETEK, Inc.*	Harris Corporation*	Southwest Airlines Co.
Caterpillar Inc.	Honeywell International Inc.	Stanley Black & Decker, Inc.
Cintas Corporation*	Illinois Tool Works Inc.	The Boeing Company
CSX Corporation	Lockheed Martin Corporation	TransDigm Group Incorporated*
Cummins Inc.	Norfolk Southern Corporation	Union Pacific Corporation
Deere & Company	Northrop Grumman Corporation	United Airlines Holdings, Inc.*
Delta Air Lines, Inc.	PACCAR Inc	United Parcel Service, Inc.
Emerson Electric Co.	Parker-Hannifin Corporation	United Technologies Corporation
FedEx Corporation	Raytheon Company	Verisk Analytics, Inc.*
Fortive Corporation	Republic Services, Inc.	Waste Management, Inc.
General Dynamics Corporation	Rockwell Automation, Inc.	

(*Denotes new company in 2019 Top 250)

APPENDIX - COMPANIES IN THE 2019 TOP 250

Information Technology (38 Companies)

Adobe Inc.	Fidelity National Information Services	Microsoft Corporation
Advanced Micro Devices, Inc.*	Fiserv, Inc.	Motorola Solutions, Inc.*
Amphenol Corporation	FleetCor Technologies, Inc.*	NVIDIA Corporation
Analog Devices, Inc.	Global Payments Inc.*	Oracle Corporation
Apple Inc.	Hewlett Packard Enterprise Company	Paychex, Inc.
Applied Materials, Inc.	HP Inc.	PayPal Holdings, Inc.
Arista Networks, Inc.*	Intel Corporation	QUALCOMM Incorporated
Autodesk, Inc.	IBM Corp	RedHat
Automatic Data Processing, Inc.	Intuit Inc.	salesforce.com, inc.
Broadcom Inc.*	Lam Research Corporation	Texas Instruments Incorporated
Cisco Systems, Inc.	Mastercard Incorporated	VeriSign, Inc.*
Cognizant Technology Solutions Corp	Microchip Technology Incorporated	Visa Inc.
Corning Incorporated	Micron Technology, Inc.	

Materials (7 Companies)

Air Products and Chemicals, Inc.	Ecolab Inc.	PPG Industries, Inc.
Ball Corporation*	Newmont Goldcorp Corporation	The Sherwin-Williams Company
DowDuPont Inc.		

Real Estate (14 Companies)

American Tower Corporation (REIT)	Equinix, Inc. (REIT)	Realty Income Corporation*
AvalonBay Communities, Inc.	Equity Residential	SBA Communications
Corporation	Essex Property Trust, Inc.*	Simon Property Group, Inc.
Boston Properties, Inc.*	Prologis, Inc.	Ventas, Inc.*
Crown Castle Corp.	Public Storage	
Digital Realty Trust, Inc.		

Utilities (16 Companies)

American Electric Power Co. Inc.	Edison International	PPL Corporation
American Water Works Co. Inc.*	Eversource Energy	Public Service Enterprise Inc.
Consolidated Edison, Inc.	Exelon Corporation	Sempra Energy
Dominion Energy, Inc.	FirstEnergy Corp.*	The Southern Company
DTE Energy Company	NextEra Energy, Inc.	WEC Energy Group, Inc.
Duke Energy Corporation		

(*Denotes new company in 2019 Top 250)

COMPANY PROFILE

FW Cook is an independent consulting firm specializing in executive and director compensation and related corporate governance matters. Formed in 1973, our firm has served more than 3,000 companies of divergent size and business focus from our offices in New York, Chicago, Los Angeles, San Francisco, Atlanta, Houston and Boston. We currently serve as the independent advisor to the compensation committees at a substantial number of the most prominent companies in the U.S.

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**LTI PLAN GRANTS IN FEBRUARY 2018
CENTERPOINT ENERGY, INC.**

The grants awarded in 2018 were based on CNP's common stock price of \$26.73 per share, which was the closing market price on CNP's common stock on the New York Stock Exchange on February 20, 2018, the employee's base salary as of April 1, 2018 and each individual's LTI target percentage. Each employee's award was based on their LTI target percentage multiplied by their base salary, divided by the stock price and then rounded.

Performance Based Shares

Grant Date: February 20, 2018

Performance Cycle period: January 1, 2018 through December 31, 2020

At the end of the performance cycle, payouts, if any, will be realized if the goals are achieved as indicated below.

Goal	Threshold Achievement (33% payout)	Target Achievement (100% payout)	Maximum Achievement (200% payout)	
Total Shareholder Return ¹	25th percentile of TSR peer group based on position	Linear interpolation between Threshold and Maximum achievement based on position	2nd position or higher	
	Threshold Achievement (50% payout)	Target Achievement (100% payout)	Maximum Achievement (150% payout)	Exceptional Achievement (200% payout)
Utility Net Income (3 year cumulative)	\$1,379 million	\$1,484 million	\$1,559 million	\$1,617 million

¹ CNP's Total Shareholder Return relative to the defined peer group.

Stock Awards²

Grant Date: February 20, 2018

Vesting Date: February 20, 2021

² The stock award fully vests as long as the grant recipient is employed by the company on the vesting date; or if a Director or Officer meets the requirements of Enhanced Retirement

Notes:

Enhanced retirement provision for continued vesting is available on grants to Officers and Directors subject to below requirements:

Retirement on or after age 55 with 5 years of service and all of the following criteria are met:

- Age plus years of service equals 65 or greater
- Retires on or after January 1 immediately following the award date
- 6 months notice of retirement
- Provide a transition plan and approved by leadership

Enhanced retirement provision of continued vesting is not available on grants to participants below the Director level

**LTI PLAN GRANTS IN FEBRUARY 2019
CENTERPOINT ENERGY, INC.**

The grants awarded in 2019 were based on CNP's common stock price of \$31.21 per share, which was the closing market price on CNP's common stock on the New York Stock Exchange on February 19, 2019, the employee's base salary as of April 1, 2019 and each individual's LTI target percentage. Each employee's award was based on their LTI target percentage multiplied by their base salary, divided by the stock price and then rounded.

Performance Based Shares

Grant Date: February 19, 2019

Performance Cycle period: January 1, 2019 through December 31, 2021

At the end of the performance cycle, payouts, if any, will be realized if the goals are achieved as indicated below.

Goal	Threshold Achievement (33% payout)	Target Achievement (100% payout)	Maximum Achievement (200% payout)	
Total Shareholder Return ¹	25th percentile of TSR peer group based on position	Linear interpolation between Threshold and Maximum achievement based on position	2nd position or higher	
	Threshold Achievement (50% payout)	Target Achievement (100% payout)	Maximum Achievement (150% payout)	Exceptional Achievement (200% payout)
Cumulative Net Income (3 year cumulative)	\$1,863 million	\$2,028 million	\$2,153 million	\$2,233 million

¹ CNP's Total Shareholder Return relative to the defined peer group.

Stock Awards²

Grant Date: February 19, 2019

Vesting Date: February 19, 2022

² The stock award fully vests as long as the grant recipient is employed by the company on the vesting date; or if a Director or Officer meets the requirements of Enhanced Retirement

Notes:

Enhanced retirement provision for continued vesting is available on grants to Officers and Directors subject to below requirements:

Retirement on or after age 55 with 5 years of service and all of the following criteria are met:

- Age plus years of service equals 65 or greater
- Retires on or after January 1 immediately following the award date
- 6 months notice of retirement
- Provide a transition plan and approved by leadership

Enhanced retirement provision of continued vesting is not available on grants to participants below the Director level

**LTI PLAN GRANTS IN FEBRUARY 2020
CENTERPOINT ENERGY, INC.**

The grants awarded in 2020 were based on CNP's common stock price of \$26.43 per share, which was the closing market price on CNP's common stock on the New York Stock Exchange on February 19, 2020, the employee's base salary as of April 1, 2020 and each individual's LTI target percentage. Each employee's award was based on their LTI target percentage multiplied by their base salary, divided by the stock price and then rounded.

Performance Based Shares

Grant Date: February 19, 2020

Performance Cycle period: January 1, 2020 through December 31, 2022

At the end of the performance cycle, payouts, if any, will be realized if the goals are achieved as indicated below.

Goal	Threshold Achievement (33% payout)	Target Achievement (100% payout)	Maximum Achievement (200% payout)	
Total Shareholder Return ¹	25th percentile of TSR peer group based on position	Linear interpolation between Threshold and Maximum achievement based on position	2nd position or higher	
	Threshold Achievement (50% payout)	Target Achievement (100% payout)	Maximum Achievement (150% payout)	Exceptional Achievement (200% payout)
Cumulative Net Income (3 year cumulative)	1,662 million	1,807 million	1,897 million	1,952 million

¹ CNP's Total Shareholder Return relative to the defined peer group.

Stock Awards²

Grant Date: February 19, 2020

Vesting Date: February 19, 2023

² The stock award fully vests as long as the grant recipient is employed by the company on the vesting date; or if a Director or Officer meets the requirements of Enhanced Retirement

Notes:

Enhanced retirement provision for continued vesting is available on grants to Officers and Directors subject to below requirements:

Retirement on or after age 55 with 5 years of service and all of the following criteria are met:

- Age plus years of service equals 65 or greater
- Retires on or after January 1 immediately following the award date
- 6 months notice of retirement
- Provide a transition plan and approved by leadership

Enhanced retirement provision of continued vesting is not available on grants to participants below the Director level

CONFIDENTIAL ATTACHMENT